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No. 1604

REORGANIZATION OF THE PASSPORT OFFICE

REPORT

OF THE

SENATE COMMITTEE ON GOVERNMENT OPERATIONS

MARCH 1, 1956.—Ordered to be printed with illustrations

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Mr. HUMPHREY, from the Committee on Government Operations, submitted the following

REPORT

This report is submitted to the Senate pursuant to the Legislative Reorganization Act of 1946, as amended, which requires the Committee on Government Operations to study the operation of Government activities at all levels with a view to determining its efficiency and economy, and to evaluate the effects of law enacted to reorganize the executive branch of the Government. The report sets forth full details relative to the reorganization of the Passport Office, Department of State, as developed by the staff of this committee.

BACKGROUND

During the past 4 years, Members of the Senate have received numerous complaints from constitutents concerning the long delays they had encountered in the procurement of passports. During the first session of the present Congress, the Committees on Appropriations heard testimony to the effect that there were serious deficiencies in the handling of passport applications, and that a complete reorganization of the Passport Office was necessary to correct this condition.

In July 1955, Senator Hubert H. Humphrey pointed out on the floor of the Senate some of the major deficiencies in the operations of the Passport Office which had come to his attention. These included inadequate quarters, lack of sufficient personnel and telephone facilities, and completely outmoded methods and equipment, which, it was reported, were responsible for the delays in providing the public with the services authorized and required to be performed by that Office. Some of the causes for these deficiencies were outlined in a letter to Senator Humphrey by the Director, Miss Frances G. Knight (Congressional Record, July 12, 1955, p. 8837). Senator Karl E. Mundt, of South Dakota, another member of this committee, also took a personal interest in providing legislative support toward the correction of these deficiencies.

The chairman of the committee directed the staff to review the operations, workload, and requirements of the Passport Office, and to determine its needs for enlarged and more modern quarters, additional funds and personnel, telephones, mechanical equipment and other facilities, and to submit details with reference to the establishment of a program of reorganization for committee action toward the objective of eliminating the existing backlogs and deficiencies in its operation.

After conferring with the Director, the staff cooperated in the development of a program designed to facilitate the complete reorganization and modernization of the Passport Office. The staff endorsed the projected program of the Director, and requested the active cooperation of a number of Federal agencies for the formation of a reorganization "team" of qualified experts to assist the Director in carrying out this project. Agencies asked to participate and to assign qualified personnel to assist in the formulation of a program of reorganization were the General Services Administration, the Bureau of the Budget, the General Accounting Office, and the Civil Service Commission.

The General Services Administration was requested to expedite the procurement of adequate quarters and telephone facilities, which request was promptly complied with. Space was offered, comparable to the needs of the Office, in the new Matomic Building, 1717 H Street NW. The GSA also took appropriate steps for contracting for adequate telephone facilities at the new location. Upon notification by GSA that suitable space was available, provided the Department of State submitted an official request for its acquisition, the staff and members of the committee requested that the Department expedite this action. On August 9, 1955, the GSA reported that it had received an official request from the Department of State for allocation of the space on a reimbursable basis, and arrangements were being made to provide approximately 65,000 square feet of space for the Office at the new location.

Plans were initiated to expedite completion of lease arrangements and necessary changes in the assigned quarters to meet the needs of the Office, so that its personnel and furniture might be moved into the new building during the Labor Day weekend, in an effort to reduce to the minimum any interruption of its operations. The Chesapeake & Potomac Telephone Co. notified GSA, however, that it would take from 30 to 60 days to complete installation of adequate telephone facilities. The General Services Administration notified the staff of the committee that assistance would be given to the Director, during the intervening period, in realining the space assigned by erecting partitions wherever necessary to insure the best possible utilization of the space to be made available.

As the program developed, the committee staff assisted the Director in regard to specific projects or studies required to modernize the operations of the Office. The General Services Administration was requested to assign specialized personnel to assist in the development of modern mechanized systems, the installation and modernization of files and other records management facilities and paperwork techniques. The General Accounting Office was requested to provide assistance in establishing adequate cash accounting and internal control systems, and the Bureau of the Budget was asked to see that qualified management and personnel experts were assigned to the

Director to assist in reorganizing the Office and in the development of a program for management control.

In compliance with the request regarding the management supervision of the program, the Bureau of the Budget arranged with Miss Knight and Chairman Young of the Civil Service Commission to have the Director of the Bureau of Management Services of the Civil Service Commission assigned to work with the Director of the Passport Office (1) in the development and installation of the new reorganization program, (2) in defining the functions of the newly created divisions and sections, (3) in fixing responsibilities and delegations of authority, (4) in developing standards of performance and staffing patterns, and (5) in overall improvements in personnel administration and general management.

The changes and improvements effected have been so rapid and so numerous that the committee staff was directed to document them for submission to the committee, so that a report might be filed in the Senate, with the objective of demonstrating what can be accomplished by the coordination and joint efforts of a survey team composed of experts from the central control agencies of the Government, under the leadership of an agency head who takes the initiative in correcting deficiencies and in the improvement of agency operations.

The committee is convinced that the results, as set forth in this report, will be of interest to other agencies of the Government which may have somewhat similar problems, as well as to the Congress. The committee is of the opinion that the pattern developed in the case of the Passport Office, involving more than 100 specific studies, as outlined in appendix A of this report, might well be utilized by other Government agencies to effect improvements in management and to achieve efficiency and economy of operation, thus enabling them to provide better service to the public.

This type of survey, whether conducted by Government personnel or private management firms under contract, is economical and effective only if the survey team is required (*a*) to submit findings and recommendations and (*b*) to assist in implementing and putting them into effect. In the Passport Office, the survey teams carried out both of these required steps, whereas, in many private management surveys, the contracts usually provide only for the submission of recommendations, and neglect implementation.

The committee believes that the joint efforts of the central agencies of government, working with an agency head, as was done in this case, will prove more productive and economical. The committee also commends the personnel of the Passport Office for their cooperation, receptiveness to improvements, and for their contribution to the accomplishments achieved as outlined in this report.

TRAVEL TRENDS

It is estimated that 514,000 residents of the United States traveled overseas in the first 6 months of 1955. They spent $237 million on transportation and another $468 million for sightseeing, shopping, entertainment, and related expenses in foreign countries.

Travel agencies estimate a minimum increase of 11 percent in 1956 travel over 1955. Some estimates go as high as 20 percent, due to the unpredictable reaction of travel credit plans and a two-vacations-a-

year idea which seems to be catching hold among those persons who have the time and can afford them.

While this vast movement of American citizens across national borders launched what Miss Knight has referred to as the "golden age of travel," and made 1955 a banner year for the travel and transportation industry, by the same token, it has overwhelmed and taxed to the limit, the meager resources of the Passport Office.

CONSULAR RESPONSIBILITIES

It is not generally known that the Passport Office renders vital citizenship services to Americans overseas. It adjudicates technical nationality and citizenship cases of persons who reside abroad and claim American nationality. It handles complicated cases, which involve claims that have to be settled in accordance with the Immigration and Nationality Act, or prior laws, treaties, and regulations.

It adjudicates cases where naturalized citizens request help in casting off their foreign citizenship. Some of them may be faced with induction into foreign armies, trial and imprisonment for military delinquency, or payment of taxes in lieu of foreign military service. They are assisted in making formal or informal representations to foreign governments.

The Passport Office receives, examines, and records birth reports of children born abroad of an American parent or parents. These are prepared in the consular offices and sent to the Passport Office for review and official recording. It maintains these records and furnishes certifications on them when requested. A report of this kind is a basic citizenship document.

It issues certificates of nationality in the cases of native American citizens for use by them in judicial or administrative proceedings in foreign states.

It receives and maintains records of consular certificates of witness to marriage. These are often referred to for the purpose of proving the marriage of an American overseas.

The Passport Office directs the activities of Foreign Service officers in all these services to American citizens. It writes and issues regulations and instructions to these officers and furnishes daily advice to them by cable and air communications, to guide them in their efforts to protect Americans, to counsel those who wish to establish or prove their citizenship and allegiance to the United States, and to give timely advice to those who may lose citizenship.

The adjudication, supervision, communications and certification work for these consular services has increased approximately 20 percent in the past year, as shown in the following tabulation:

Service rendered	1952	1953	1954	1955	Percent change 1954–55
Overseas registration of American citizens	54,395	58,717	50,579	50,222	−0.07
Recording of births of children born to American parents overseas	22,579	35,244	18,345	23,034	+25.5
Certification of marriage	5,900	4,697	5,638	5,605	−.05
Passport applications from overseas posts	60,596	64,578	58,881	73,858	+25.4
Passport renewals and extensions from overseas posts	76,739	76,965	96,408	112,982	+17.1

NEED FOR REORGANIZATION OF THE PASSPORT OFFICE

In July 1955, the Director of the Passport Office testified before the Senate Appropriations Committee to the effect that the Office was deluged by an unprecedented demand for passports, travel information, and related services. The Director reported that passports issued or renewed numbered 499,941 in fiscal 1955, as compared to 434,644 in fiscal 1954. At that rate, the Passport Office issued or renewed an average of 4 passports per minute, or 1 every 15 seconds. This is an increase of 15 percent in 1 year.

In fiscal 1955, foreign service posts issued 53,189 and renewed 71,503 passports. Insular possessions (Hawaii, Puerto Rico, Guam, Virgin Islands, American Samoa) issued 7,024 and renewed 1,562 passports.

Not only has the volume of passport issuance and renewal increased, but all activities of the Passport Office were 15 percent higher, due to the many reasons which made 1955 the greatest travel year in history. Contributing to this trend are economic, physical, as well as psychological factors. These factors, such as the lessening of the war scare; paid vacations; expansion of travel facilities; simplification of travel procedures; attractive tourist and family rates; stimulation of credit travel; and more and earlier retirements, with adequate pensions and social security, have prolonged the "travel-life-span." Travel to faraway places is no longer a chore nor a challenge; it has become practical and available to an ever-increasing number of Americans, as illustrated by the following compilation:

Comparison of passport issuance and fees collected, 1940–55

Fiscal year	Passports issued and renewed in United States	Fees collected	Fiscal year	Passports issued and renewed in United States	Fees collected
1940	38,849	$419,359	1952	373,729	2,636,210
1945	152,747	454,954	1953	416,563	2,966,440
1950	306,871	2,390,060	1954	434,644	3,144,343
1951	254,332	2,005,568	1955	499,941	3,569,616

There was a time when people planned overseas trips 2 and 3 months in advance, and applied for passport issuance accordingly. When a traveler accepted a leisurely 7- to 10-day sea voyage, he also accepted a wait of 3 or 4 weeks for his passport. Today, the citizen who makes up his mind to depart for foreign shores within a few days demands fast action from the Passport Office.

In the coming jet age, when virtually any part of the world will be a daylight flight away from United States embarkation points, the passports will have to be processed with comparable speed. This involves a "retooling" of all passport procedures—a modernizing and streamlining of its files to provide swift, yet accurate, checking on past records; a fast, yet secure, and acceptable processing of the actual travel document; an expeditious, yet accurate, adjudication and review, with sufficient flexibility to meet fast-changing conditions and demands.

Since taking office as Director in May 1955, Miss Knight has made a complete analysis of the past, current, and potential workload of the

Passport Office, and has compiled significant production statistics. These figures give conclusive evidence of the present and potential burden which must be carried by the Passport Office and a need for its reorganization and modernization. The following are cited to illustrate the nature of the problems which arose in connection with the activities of the Office:

Telephone inquiries

In a test of 5 working days (May 19 through May 25, 1955) a selected few staff officers of the Passport Office received 13,097 telephone calls which they handled personally. Another 5,000 telephone calls, directed to the Passport Office during that period, could not be transferred from the switchboard of the Department of State because of inadequate telephone facilities in the Passport Office.

The public inquiries section of the Passport Office handled an average of 250 calls per day per clerk during the travel season.

This condition resulted in many requests being directed to Members of Congress, to assist constituents who were unable to secure passports. The telephone facilities were so overloaded and other facilities so overtaxed that even Members of Congress were unable, in many instances, to be of much help.

Correspondence

As of June 1955, the Passport Office had a backlog of close to 2,000 unanswered letters. This number increased during July and August until the total reached over 5,000. The Passport Office had no means of coping with this volume of correspondence. The result was a corresponding increase in telegraphic and telephone complaints.

Seasonal peak

In the past, the Passport Office divided its calendar year into (1) a busy season of approximately 4 months; (2) a rush season of 4 months; and (3) a slack season of 4 months. This is no longer possible. Travel statistics indicate that the busy season extends 5 months, with a rush season of 5 months. The remaining 2 months are somewhat less busy, but by no means slack. Traditionally, the month of May reaches a peak in passport processing and issuance. In 1955, May reached an alltime high; June topped May, and July topped June. There was no late summer or early fall letup in travel, as in previous years. On the contrary, there was an increase of 23.4 percent in passports issued October 1955 over October 1954; an 18.1 percent increase in November 1955 over November 1954; and a 13.2 percent increase in December. Thus, the last quarter of 1955, which was normally considered the "slack season," showed an increase of 18 percent over the volume of the fourth quarter, 1954.

Personnel

As the issuance and renewal of passports, and resultant fees, of the Passport Office increased, the permanent personnel authorized decreased. Temporary and overtime personnel were assigned in lieu of permanent employees, with a resulting increase in salary cost (but with a significant decrease in efficiency and accuracy), as illustrated by the following tabulation:

Fiscal year	Passports issued and renewed	Fees collected	Regular personnel authorized	
			Number	Salaries
1952	373,729	$2,636,210	240	$993,035
1953	416,563	2,966,440	245	1,016,725
1954	434,644	3,144,343	236	990,450
1955	499,941	3,569,616	236	990,450
1956	[1] 537,030	[1] 3,823,200	[2] 209	1,055,874

[1] Estimates.
[2] The decrease from 236 to 209 positions was necessary to absorb the increased costs under the Federal Employees Salary Increase Act of 1955. This represents a reduction of 27 positions despite increasing workloads. The supplemental appropriation granted in July 1955 increased the 1956 authorization to 303 positions at $1,384,949. However, due to lapses and pay increases, the Passport Office is presently operating under a ceiling of 298 positions at the aforementioned rate.

Housing

From November 1943 to September 1955, the Passport Office was housed in the Winder Building, built in 1848, and in two adjoining annexes. These structures were neither safe nor secure. Nor did they provide adequate space for the expanding files and work of the Passport Office.

For instance, passport application files were scattered over three buildings in 48 rooms on 11 floors. Searching and filing were difficult and inefficient. Adequate supervision was almost impossible.

Security, fire, and physical protection of the files were inadequate. The buildings were in disrepair; had no modern improvements; lighting, heating, and ventilation were poor.

With humidity high and temperatures hovering between 95° and 101° during the last 2 weeks of July 1955, the Passport Office lost approximately 5,200 man-hours of work due to early dismissals. Using an average hourly figure of $2.10 per man-hour, the cost of this loss of time amounted to $10,920. The excessive heat in August doubled these figures.

The Passport Office had a small and very inadequate public reception area. During the rush season, passport applicants stood in line, in the corridors, awaiting their turn at a writing table, or to be interviewed by an agent.

Equipment

Much of the equipment in the Passport Office was in a state of disrepair. The rate of replacement is estimated to have been far below the average of $75 per employee per year; however, no figures are available to indicate the rate of replacement or use of supplies and/or equipment over a period of years.

During the months of July, August, and September, 1955, the Passport Office recorded weekly breakdowns of its passport writing machines. One of the seal presses was in such a state of disrepair as to be inoperative 50 percent of the time.

Typewriters were old, and many machines were not usable for any practical purpose. This likewise applied to some of the filing equipment.

1956 supplemental of $600,000

Armed with these specific facts and figures, the Director of the Passport Office asked for financial assistance from the Congress, and

the staff of this committee enlisted technical assistance from several Federal agencies who have experts in the fields of organization and management available for consultation and guidance. Miss Knight stressed certain priority requirements: (1) Modern quarters to house the operation; (2) a streamlined reorganization designed to handle the volume and complexity of work; (3) a mechanization to speed up processing of passports; (4) the establishment of modern office management techniques; and (5) up-to-date office equipment.

A supplemental appropriation of $600,000, granted the Passport Office in July 1955, made possible emergency action to increase personnel, to extend overtime operations, and to pay for the move to and rental of more adequate quarters, and the purchase of vital office supplies and equipment.

PASSPORT OFFICE REORGANIZATION

The reorganized and revitalized Passport Office in its new quarters constitutes, in the opinion of this committee, eloquent testimony to the effectiveness of the cooperation, teamwork, and coordinated talents of the organization and management experts assigned to the Passport Office by the General Services Administration, General Accounting Office, and the Civil Service Commission.

The physical reorganization and streamlining of the Passport Office was made possible when it moved from the antiquated Winder Building, where it occupied 55,000 square feet of space in 3 structures on 11 floors, to the new, air-conditioned Matomic Building where it currently occupies 65,000 square feet of space on 3 floors. Passport applications flow from the mail room, where they are received, to the cashier's office, where the fee is removed and the application stamped and recorded, to a card index file, to the passport writing and processing section, to the adjudicator and reviewer, and out through the mail room. There is now a systematic flow of work, which minimizes time lost between the receipt of the application and the mailing out of the passport. Individual handling, recording, processing, and carrying have been reduced to a minimum.

Performance standards, staffing patterns, work and progress reports were devised and installed for the adjudicating, processing, filing, checking, and mailing activities. With these work schedules and management controls, the committee has been assured that no backlog can develop without immediate detection, and that the Office is prepared to take remedial action whenever required to clear up any bottlenecks that may develop. These improvements could not have been made without the move to modern quarters and without the complete reorganization.

Among the changes made by the Director in reorganizing the Passport Office was the establishment of 4 functional divisions, namely, the Administrative Division, Passport Legal Division, Domestic Adjudication Division, and Foreign Adjudication Division, in lieu of 17 organizational units which previously reported directly to the Head of the Office.

The Administrative Division plans, directs, and operates the administrative and business management functions of the Passport Office, including the personnel activities, the employee training program, budget, accounting, organization and methods surveys, workload and

travel statistics, procurement, storage, and disposition of supplies and equipment, and supervises the maintenance and operation of the application and reference files and the mail room. It also is responsible for the coordination and direction of the domestic passport field agencies.

The Passport Legal Division furnishes legal advice and assistance to the Director and to the division chiefs of the Passport Office on novel and complex legal issues and cases; keeps officials informed on new laws, Department of State regulations, and court decisions which affect the work of the Passport Office. It represents the Passport Office in civil actions involving passport matters; decides whether waivers should be granted in accordance with the Wartime Travel Control Act, as it applies to nationals. It directs and supervises the fraud and litigation work of the Passport Office, cooperates with other agencies of the Federal Government in maintaining and searching files and records of passport applicants where there is derogatory evidence of subversive activity.

The Domestic Adjudication Division adjudicates passport applications and determines if applications are properly executed and if applicants are eligible to receive passports in accordance with passport regulations, and pursuant to citizenship, nationality, immigration, naturalization, Foreign Service, and other related statutory provisions. It conducts conferences and interviews with persons making appeals after domestic passports have been denied or travel restricted, and explains court decisions, regulations, policies relating to the issuance of passports, expatriation, repatriation, adoption, legitimization, marriage, divorce, naturalization and related matters, and approves or disapproves the issuance of passports to American citizens desiring to travel abroad. It validates, writes, and issues the authorized passports and maintains appropriate records with respect thereto. This Division handles all public inquiries coming to the Passport Office by telephone or correspondence.

The Foreign Adjudication Division adjudicates technical nationality and citizenship cases involving claimants to American nationality who reside abroad and which originate at the American Foreign Service posts, United States outlying Territories and insular possessions. Cases are adjudicated in accordance with the terms of section 104 (a) (3) and other provisions of the Immigration and Nationality Act, as well as under prior laws and regulations.

This Division determines the extent to which claimants to United States nationality, residing abroad, are entitled to the diplomatic protection of the United States. It conducts liaison with and guides other areas of the Department of State and other agencies of the Government on matters of nationality, protection, and passports, and similarly with respect to official representatives of foreign governments on matters regarding interpretation and clarification of laws, treaties, conventions, and agreements to which the United States is a party with foreign governments; court decisions, and opinions of Attorneys General of the United States which concern the above problems. It assists naturalized American citizens of the United States to cast off foreign citizenship and to meet foreign requirements and, where necessary, makes formal or informal representation to foreign governments in behalf of those citizens of the United States who, from the viewpoint of this Government, have been wrongfully

inducted into foreign armies or have been required to pay taxes or serve prison sentences in lieu of foreign military service.

The Director of the Passport Office is responsible for the management and operation of the several Divisions whose functions are briefly outlined above, and for the successful operation of the six domestic field agencies located in New York, Boston, Chicago, New Orleans, San Francisco, and Washington, D. C. The Director is also responsible for the supervision and direction of the passport and protection activities carried on at all American Foreign Service offices. The Director plans, initiates, and formulates office policies, or recommends overall policies, governing the conduct of all passport and related activities and the administration of laws, regulations, court decisions, and precedents relating to passports, nationality, and the control of American citizens leaving and entering territory under United States jurisdiction.

In addition to correcting the Director's impossible span of control, this reorganization made the organization structure more adaptable to the job to be done, improved the direction and coordination of field operations, definitely fixed the responsibilities and authority of each official and supervisor, and clarified understanding so that the ensuing steps in simplifying and improving management and operations could be taken.

STREAMLINING PASSPORT OFFICE OPERATIONS

Correspondence

It is estimated that the Passport Office receives over 1 million pieces of mail in the course of a year. Approximately 180,000 letters are mailed out, and of this number 120,000 are individually written as a result of inquiries. In addition, there are currently 500,000 passports mailed out annually.

With the assistance and guidance of a survey team assigned to the Passport Office by the General Services Administration, a study of this correspondence volume has been made, with the result that efficient, modern, letter-writing techniques have been introduced saving considerable time, personnel, and funds. The handling of incoming mail has been speeded up by the introduction of correspondence symbols and mail controls in each Division of the Passport Office. Specific routing has been assigned to special categories of mail, such as (1) congressional mail; (2) general inquiries; (3) application mail; (4) Foreign Service communications; and (5) legal and case correspondence.

With the Director's acceptance of a modern letter format, a correspondex system of effective pattern paragraphs and coding of forms, the Passport Office should not only be able to expedite replies to inquiries and to complete data required to act on passport applications, but the Director expects to save a minimum of $6,000 a year in carrying out its correspondence functions. Over 100 form letters and letter inserts are now in use. The introduction of window envelopes will save an additional $5,000 annually in typing costs.

A correspondex system has been installed in the Foreign and Domestic Adjudication Divisions of the Passport Office, which permits the use of form letters, pattern paragraphs, and printed enclosures, estimated to reduce individual letter-writing by 75 percent.

Files

There are more than 35,000,000 documents in the current application files of the Passport Office, which cover the period from 1940 to the present. In order to modernize and simplify the filing and searching of passport and citizenship records, new methods and equipment have been introduced under the supervision of the General Services Administration, to permit easy access to the files and provide expansion for the next 5 years.

To speed up processing, application files are being refined alphabetically with the introduction of 100,000 division key name folders. Filing operations are concentrated in 5 large, well lighted and ventilated areas on 3 floors, in contrast to the former location in 47 rooms on 11 floors in 3 separate buildings.

A team of specialists from the General Services Administration has supervised the installation of other modern file equipment and procedures. It was first determined that alphabetical, self-indexing files would be required. The problem was to increase filing actions above a rate of 300 to 600 per day per person, which was the production rate at the beginning of the survey. Tailormade methods and systems were developed around the documents received by the Passport Office, which have yielded a rate of 2,000 to 3,000 filing actions per day per person. Under this procedure, file personnel now have time available to search for requested documents, resulting in a 10 to 20 percent advantage in the searching operations.

Special studies were made to develop methods of breaking the files so that shelving could be used, since experience has shown that shelved records take up about one-half the space of records in filing cabinets. A break was accomplished and over 1,000 cabinets were shelved during and after the move to new quarters. Four thousand square feet of space was saved and filing cabinets were available to house new records and even for use elsewhere in the Department of State. Already 1,500 usable four-drawer legal-size steel cabinets have been released for use to other Government agencies. At an estimated used cabinet value of $50, the Passport Office to date has released $75,000 of filing equipment.

Much of the problem of the Passport Office files comes from the numerous references to them. In many routine cases there had been a practice of always searching files before considering action. Criteria were developed as to the circumstances under which files should be requested. As a result, this type of reference was reduced from 21 percent of all applications to 3 percent. The savings were proportional.

Redesign of the passport application

In a survey of the workload in the Passport Office as it existed in May 1955, the General Services Administration reported only 46,900 passports issued in May, as compared to 60,108 applications received. Applications were so heavily backlogged that they were being processed according to embarkation dates. There were 182,000 unsorted and unfiled applications; 2,540 incoming telephone calls per day inquiring into application status; 1,213 outgoing telephone calls following up on the inquiries; 300 incoming letter complaints concerning passport delays. Ten percent of Passport Office personnel were designated as "special searchers" to locate applications piled

up in the backlog and, as an emergency measure, 70 temporary, untrained employees were enlisted to assist mainly in the filing operations.

By June 15, 1955, the Passport Office had a backlog of more than 7,000 domestic passport cases, which could not be processed for lack of searching clerks; carding and indexing of applications were 18,000 in arrears; unfiled applications were 225,000 in arrears; and the actual typing of passports was 5,800 cases in arrears. These backlogs increased to unmanageable proportions during July and August.

One of the study groups of the second Hoover Commission criticized the Passport Office for the size, format, and multiplicity of its old-fashioned, legal-size passport application forms, which were difficult to fill in and to process. Even more serious, the forms forced the Passport Office to use large-sized filing equipment, adding at least one-fourth to the space and equipment expense. Two new forms combining all the old application forms were devised by the survey team and Passport Office personnel, under the supervision of the General Services Administration. These forms are letter sized, logically arranged, and phrased as simply as was legally possible. They are devised to act as their own folders making for additional savings in processing and filing, as well as reducing the loss of enclosures (photos, certificates, etc.).

The adjudication of passport applications

Perhaps the key operation in processing passport applications is that performed by the adjudicator who determines the action to be taken in each case. Study revealed that nine-tenths of the applications could be approved immediately from available documents and that many of these cases could be adjudicated by nonlawyer or nontechnical personnel, if adequate criteria, training, and supervision were provided.

The various studies of the adjudicating process made it possible also quickly to dispose of the average application. The results of this are that the bulk of the applications do not become backlogged awaiting action on a relatively few controversial and difficult cases. A supplemental effect was the achievement of greater individual production.

Paperwork controls of passport applications

Because of the mass of applications flowing through the Passport Office, effective, up-to-the-minute controls were found to be necessary. Each application is considered to be a potential emergency, and a large number do become emergencies, as was experienced during the 1955 rush season. In May 1955, when 3,200 applications were being received each day, 2,500 phone calls were coming into the special inquiry unit and several hundred letters into the mail room inquiring about overdue passports or requesting that emergency changes be made.

Under the previous system, several days or even 2 weeks could elapse before a status record of a case became available to anyone, and even longer before the inquiry unit had such information without sending special clerks throughout the building, thumbing through stack after stack of uncompleted applications until the right one was found. Part of the problem arose because of the long "pipeline" used to process applications and part resulted from the fact that a passport number

was not available until the process was near the end. Frequently passport numbers were needed so that applicants could get certain clearances awaiting receipt of the actual passport.

Under the new procedures now being installed, fees are stripped from an application, a number is issued, and a book passport prepared. A control card is then written, showing the case assignment. Throughout the remaining part of the process the applications are kept in sorted, searchable order, and packaged into a specially designed pocket folder with the passport and all material to be sent out with it. The status card is kept at a control point (alphabetically determined from the application) where full responsibility for the packet in process and inquiries from the applicants is assigned.

No further matching of documents is necessary once the packet or pocket folder has been prepared. It is as if the file drawer for each application were moving with it. No additional filing, searching, or handling is necessary and one control card keeps track of the entire packet.

By this simplified control method, the need for four control registers and numerous special searchers was eliminated and delays were reduced.

In a similar manner, simple controls were established over mail as received, insuring that mail is routed immediately to a responsible official. Overdue mail is reported to the Director. The principle followed is that each official is responsible for prompt action on mail assigned to him, rather than awaiting routine processing through registers, files, or through a series of feeder channels.

Blank passports are inventoried and a controlled, systematic method for issuing has been developed. By reconciling the issuance records according to accepted methods, a control of passports has been established. This was a necessary security measure, to avoid the possibility that blank passports may be obtained by counterfeiters. Also, the passport inventory control gives a quick, simple method of obtaining work performance counts, taking advantage of the fact that the passports are received in prenumbered, labeled packages.

By establishing a "straight line" process, it is possible to obtain meaningful close-of-business data at each key step. A management control report was instituted which tells at all times the amount of work in each segment of the pipeline. Complexities of assignments, special handling procedures and a certain amount of doubling back, made such information difficult under the old process.

Format improvement of the passport

A study conducted by the GSA survey team revealed that 88 percent of the regular passports issued show use of 18 pages or less out of the present 32-page passport, leaving 14 pages of the document blank at the time of expiration. Recommendations were made, and have been accepted, to reduce the number of pages in the passport from 32 to 20, thus serving the requirements of 88 percent of passport holders. It was determined that, by inserting a 4-fold, 8-page accordian insert, which can be taped into the passport whenever needed, the visa requirements of all but 3 percent of passport applicants can be met. This reduction in the volume of pages will save approximately $20,000 a year in passport printing costs.

There have been 14 different kinds of passports in use, requiring variations in printing and processing procedures. However, 85 percent of the passports are of the "regular" variety. Other classifications include—

1. New York agency passport
2. Boston agency passport
3. Chicago agency passport
4. New Orleans agency passport
5. San Francisco agency passport
6. Insular passport
7. Foreign Service passport
8. Dependent passport
9. Regular passport, presigned and prenumbered
10. Regular passport, unsigned and unnumbered
11. Regular passport, presigned and unnumbered
12. Special passport, presigned and unnumbered
13. Special passport, unsigned and unnumbered
14. Diplomatic passport, unsigned and unnumbered

Recommendations have been made and adopted to eliminate the agency series and use regular passports in lieu thereof. Insular and foreign passports are to be combined; dependent passports will be discontinued.

Acceptance of these recommendations will reduce the number of categories of passports to four, consisting of regular, diplomatic, special, and Foreign Service.

Extensive studies have been made of the passport format in an effort to find a practical, economical, and secure method of speeding up the physical processing of the document. Heretofore, the passport has been processed on a flat-bed typewriter and goes through a time-consuming procedure of stamping, sealing, embossing, and checking. By revising copy, reversing pages, and running the description of the passport bearer in a horizontal format instead of vertical, the use of the heavy and cumbersone flat-bed typewriters is being eliminated and the passport will be adapted to processing on standard typewriters. It is estimated that this innovation alone will double the output of the processing section of the Passport Office.

It is anticipated that the preparation of new-type passports on typewriters will reduce the incidence of error, increase the rate of production, reduce spoilage of passports (which cost 35 cents each), and permit the immediate use of typists without a long and costly training period which was necessary in connection with the operation of flat-bed bookkeeping machines.

Registry of the passport

With the assistance and guidance of the GSA survey team, the Passport Office conducted a study of man-hours, cost, and incidence of loss relating to the registry of passports mailed to applicants. The Post Office Department estimates the cost of handling such registry at 60 cents per passport. Post Office statistics further indicate that only 1 out of 201,205 pieces of all types of mail is lost. After 2 months of experimentation and study, it was recommended by the survey team, and approved by the Passport Office, that the registry of passports be eliminated, except in special cases, with an estimated savings

of approximately $150,000 to the Post Office Department. The Post Office Department has further approved the use of penalty indicia by the Passport Office.

Improved methods for collecting fees

At the request of the Director, the General Accounting Office assigned a team of consultants to the Passport Office to help establish adequate and acceptable controls for fees collected by the Passport Office and its agencies. A reorganization of the cashier's office has been completed, and procedures developed for the daily deposit of fees received; and for the handling of certificates of deposit and listing of acceptable and nonacceptable moneys. Cash registers have been installed and, upon the availability of funds, will be issued to the field agencies. An imprest petty cash fund has been established.

A preliminary survey has been made of the field agencies, and instructions have been issued on the handling of inventories for postage stamps; deposit of moneys collected from applicants for special services; telephone and telegraph expenses in connection with clearance of passports in emergency cases; uncollectible checks, and related matters.

Statistics

The General Accounting Office has also assisted in the establishment of a statistical unit in the cashier's office, designed to compile travel statistics and records for official and industry use. Passport application forms, both for the issue of a new passport and the renewal of an old passport, have been revised to produce travel statistics needed to analyze travel trends and present accurate data on the travel habits of Americans.

With the future acquisition of punchcard equipment, the Passport Office plans to make available such statistical information as mode of travel, object of travel, occupation, age, tours, civilian, military, Government, incidence of travel per individual, residence, citizenship, and similar and related information.

Personnel

The Civil Service Commission assisted in the development of performance standards and staffing patterns, in the development of work reporting procedures and forms, in preparing position descriptions, in developing training programs, in actually developing and putting the reorganization into effect, and in working out solutions to numerous trouble areas.

On November 14, 1955, an incentive awards program was established in the Passport Office, and a brochure distributed to all personnel, designed to encourage new and constructive ideas which would help increase the service rendered to the public, and increase the efficiency, effectiveness, and economical management of the Passport Office.

Every member of the Passport Office staff, both in Washington and in the field, was given a specific outline of the goals, purpose, and administration of the awards program, and urged to participate in making suggestions which would improve safety, morale, service, performance, and quality.

Equipment

With the assistance of the survey teams, the Passport Office has approved a program for the improvement of its operations by the purchase of essential modern office equipment, such as electromatic typewriters, dictaphone and audograph machines, adding machines and robotypers, photostatting and duplicating equipment, a simplex timestamp, multisort containers, alphabetical index guides, Line-a-time holders, and similar equipment, all of which are necessary toward modernization of the Office, and to assure that it attains its highest efficiency. Desks, chairs, cabinets, bookcases, and tables have been cleaned and refurbished. The Passport Office did not buy new furniture, but selected from nearby Government warehouses items which were reconditioned, at a fraction of the cost of new equipment.

As previously noted, much of the mechanical equipment in the Passport Office was in a state of disrepair, and either had to be rebuilt or reordered. The costs, which were unpredictable at the time of the 1956 supplemental appropriation request, have now been ascertained, and the Director reports that many urgently needed purchases are being delayed for lack of funds.

At the present time, the passport picture is glued and ironed onto the passport by hand; the official seal of the Department of State is impressed on the red wafer on the authorization page in another manual operation; it is again impressed on the photograph in a third manual operation, and the legend is impressed beneath the photograph in a fourth manual operation. These procedures are archaic, and should be mechanized in one streamlined process.

The survey teams are agreed that, among the equipment needs required for the completion of the modernization of the Washington office, is a machine, yet to be designed and for which funds have not been made available, which will affix the photograph, seal, and legend to the passport in one operation, in lieu of the present manual operations.

The General Accounting Office representatives indicated that other equipment requirements include calculators; steel, fireproof file cabinets for the basic Passport Office name-card file; electric letter openers and sealers; an electric protectograph; a signature machine and cash registers. The modernization of the domestic field agencies has not yet begun and should be expedited in order to provide adequate public service in areas surrounding Boston, New York, Chicago, New Orleans, and San Francisco.

Representatives of two of the agencies participating in the reorganization survey have indicated that there is presently an urgent need for an additional appropriation of approximately $10,000 for the procurement of equipment required to effect the essential aspects of the reorganization program. This equipment consists of 14 electric typewriters (with soft platens and distinctive type designed to make duplication difficult and safeguard against alterations which would replace outmoded flatbed bookkeeping machines the operation of which results in considerable spoilage of passports costing 35 cents each, and other advantages which will reduce the incidence of error and increase the rate of passport issuance to meet peak loads); 25,000 pocket folders; 2 used cash registers; a letter opening machine; 4 alphabetical sorters; a power-driven wire stitcher, etc. A detailed outline of revised equipment needs, based on the reorganization

program (which includes the equipment outlined above), is included in budget justifications now pending before the Committees on Appropriations.

Brochures

The Director of the Passport Office has initiated a program revising and simplifying brochures and pamphlets giving information on areas where passports are not required; listing visa fees charged by foreign countries; general travel information for passport bearers; essential requirements for making application for a passport; instructions to clerks of the courts authorized to execute passport applications, and many other leaflets for public and specialized consumption.

There is currently being distributed to all Foreign Service posts a completely revised edition of the Abstract of Passport Office Codes, bringing up to date all precedents, rules, and regulations governing the issuance of passports. The previous general revision of the Passport Office Codes was made in 1937.

Speed and service

Many changes have been devised to speed up the issuance of passports, without any relaxation in security measures. For instance, representatives of business concerns proceeding abroad on private business to countries other than Iron Curtain areas are no longer required to submit sponsoring letters from their employers.

Birth and baptismal certificates are being returned to applicants after being certified at the Passport Office, thus reducing future searching and correspondence on the subject.

A number of other devices and innovations are being studied to improve and speed up public service. Most important among these is the revision of the passport itself, permitting the document to be processed in a fraction of the time now needed, as outlined hereinbefore in this report. New techniques are reported to have already reduced passport processing to 5 working days from the receipt of an application. A new format is being studied thoroughly and carefully, to insure the production of a document which will meet the regulations and requirements of Government officials, as well as the traveling American citizen.

The committee recommends that, during fiscal year 1957, the Passport Office should be encouraged to complete its tooling-up program with the purchase of modern machinery, which will mechanize certain hand operation such as the individual hand gluing of every passport picture; the duplicate impression of the official seal; the stamping of the imprint; the sealing of envelopes; the affixing of stamps, and so forth. It is difficult to ascertain the savings that would accrue as a result of these improvements.

Much further research and experimentation is indicated. Tests of the use of electric letter openers and letter sealers have indicated that the installation of machines to perform these functions would prove to be great timesavers, as would be the acquisition of numbering and stamping machinery, automatic counters and conveyers. None of this equipment may be installed without adequate funds.

The committee was also impressed by the report of its staff, that the Passport Office has been seriously understaffed in the past few years. The impact of the 1955 travel boom made it obvious that, not only are better grades required in the specialized clerical and adjudication

work, but that the Passport Office must be provided with adequate administrative and trained clerical assistants to properly supervise the work of its domestic field agencies and to review expeditiously and accurately the work of the Foreign Service posts in the field of passport issuance and citizenship.

RECOMMENDATIONS AND CONCLUSIONS

As outlined above, the reorganizations that have taken place within the Passport Office, under the supervision of a survey team composed of experts in the fields of management, records control, accounting, and other specialized areas, have effected tremendous improvements in its administration and operations. These reorganization changes, and the improvements in management and in operations, were devised and installed by presently employed personnel of the Government. They furnish concrete evidences of what can be accomplished by the pooling of the skills and facilities of representatives of the central control agencies of Government. The committee suggests that the pattern used by the Passport Office, as presented in this report, might well be utilized by other executive agencies, as a means of improving management and operations, and in effecting economies.

There are certain other improvements, however, as outlined in the preceding sections of this report which, in the view of the committee, will require consideration by the Congress, if the Passport Office is to properly absorb its potential workload, and be in a position to continue to function efficiently when demands for its services increase.

Tabulations and charts, prepared by the survey team and reproduced in appendix B of this report, show that the number of domestic passports issued and renewed have increased from 155,153 in 1945 to 528,009 in 1955, representing a workload that has more than tripled in the last 10 years. Projected estimates indicate that, although the Office is now operating at the highest level in its history, the potential workload will continue to increase to more than 656,000 domestic passport applications and renewals by 1959.

It is, therefore, the view of the committee that the present reorganization of the Passport Office should not only provide for its existing needs, but should take into consideration the impending flood of passport applications, and its future requirements. To be fully utilized, the program should be planned so as to meet demands for services which competent authorities indicate will be made upon it in the next 6 months, and which will continue to increase each year. With this objective in view, the committee submits the following recommendations for consideration by the Congress:

Recommendation No. 1. That the title of the "Passport Office" be changed to the "United States Passport Service."

In a report to the Senate in the 80th Congress (S. Rept. No. 243) the Committee on Government Operations recommended the establishment of a program for the improvement and promotion of a consistent pattern of nomenclature in the executive branch of the Government. The committee has repeatedly urged all agencies of the Government, in effecting reorganizations, to adhere as closely as possible to the formula prescribed in its original report in order to bring about more uniformity in the organizational structure of the

Government. The overall objective was to identify clearly the relative importance of the various types of activities, and to bring about a better understanding on the part of the public of the nature and type of Government services that were being performed in the general public interest.

The Commission on Organization of the Executive Branch of the Government (the first Hoover Commission) adopted the committee's recommendations for uniformity of nomenclature in its report on Management of the Executive Branch, and recommended (recommendation No. 21) that the internal operating organizations of each department should follow a standard nomenclature. The Commission stated in that report that the term "Office," as used therein, should refer to staff agencies which served the President or his department heads, and that the designation "Service" should be injected into the operating structure.

The Committee on Government Operations, in its Annual Report on Organization of Federal Executive Departments and Agencies, on March 25, 1949, concurred in this definition in the Hoover Commission report, and stated (Committee Print No. 5, 81st Cong.) that "the term 'Office' will designate *staff agencies* which serve directly under the administrative head of an establishment or component and are directly responsible to such official."

The designation of the Passport *Office* within the Department of State, therefore, clearly conflicts with the prescribed standard nomenclature, since that agency performs a direct service to the public (as well as to the Department of State). Since it is an operating unit and not a staff office, as defined under the above standards, it should be so designated as to conform to its status within the Department. In order to give proper recognition to the exact nature of its operations, it is recommended that the title of the "Passport Office" should be changed to the "United States Passport Service" or to "Passport Bureau." Either of these alternative designations, in the view of the committee, would rectify the present misnomer and more clearly define the nature of its operations as a semiautonomous operation.

Should the Congress approve this recommendation, the committee further recommends that the Director be appointed under the classified civil service, with appropriate classification to conform to the importance of the duties and responsibilities of the head of an operating agency. The Director is not required to make policy determinations, and should be an administrative official in the career service, since the agency would continue to operate under basic laws enacted by the Congress which clearly establish its fees, policies, and other functions.

Recommendation No. 2. That a passport service revolving fund be created, under an established ceiling, in order to provide a means of financing which will permit the Passport Office to meet expanding or contracting activities caused by seasonal or extraordinary conditions.

The purpose of the recommended fund would be to provide a business-type operation, with more flexible authority to meet constantly changing personnel and supply requirements during the peak season, which make unpredictable demands on its services. The purpose would be to provide (1) more accurate computations of cost, (2) simpler accounting device for recording fees received and expenses incurred, and (3) a means for defraying expenses directly out of fees collected.

The fund would also provide a means for the Congress to evaluate more accurately the fees received, and to insure that the Office will continue on a high level of performance. Expenditures of the Passport Office will vary with the demand for services and, if rigidly controlled, as at present, the procurement of the necessary funds with which to finance activities attuned to fluctuation of overseas travel are unnecessarily delayed.

Legislative authority for the establishment of such a proposed fund should provide for the removal of the requirement that passport fees, as received, be covered into the Treasury of the United States as miscellaneous receipts, and authorize their conversion into the passport service fund, which, upon attaining a specified ceiling (recommended at $1 million) would then require that any excess should be covered into the Treasury.

This recommendation is proposed as a means of enabling the Passport Office to maintain a high level of performance by (*a*) the procurement and replacement of mechanical equipment as operations require; (*b*) promoting the utilization of modern methods for the processing of passport applications, and the improvement of records management and administrative controls; (*c*) providing funds for extraordinary printing requirements when found to be necessary; and (*d*) the employment of needed personnel to meet peak workload requirements.

The establishment of a revolving fund, under ceiling limitations with sufficient latitude to meet these objectives, is, in the view of the committee, the best method of procedure to insure that the needs of the Office can be met in the immediate future. If approved by the Congress, however, the Director and the Comptroller General of the United States will be urged to carefully study and analyze the operations of the funds, with a view to recommending any supplemental action that may be found to be desirable, or which would afford improved operating and budgetary controls after the program has been thoroughly tested.

Legislation being prepared by the committee to implement this recommendation will also require that the Passport Office comply with existing business-type budget provisions of law, and that periodic audits be made by the General Accounting Office.

Recommendation No. 3. That passport and renewal fees be increased by 100 percent, to conform to increased service costs.

The present passport fees were established under the Act of May 16, 1932 (U. S. Code, title 22, sec. 217a). According to information furnished to this committee, increases in salaries and other expenses in the Passport Office and other Government agencies approximate 125 percent, and statistical information compiled by various Federal agencies indicates that other cost indexes show increases have averaged in excess of 100 percent within the past 20 years. Based upon these cost factors, and the necessary increase in the rental of enlarged quarters, the procure ent of new equipment, and essential personnel requirements to meet the stepped-up tempo for the issuance of passports promptly, there is clear evidence that the passport fees should be increased proportionately. This recommendation accords with the recent action taken by the Congress in approving legislation to increase the fee for executing passport applications handled by State officials from $1 to $2 (Public Law 403; S. Repts. No. 1370 and No. 1467, 84th Cong.).

Passport fees, except in a limited number of cases, are paid by persons who are traveling on pleasure or business, and, in most instances, constitute a fee for special services which will be paid largely by persons who are in a much more favorable position to pay for such services than the average Federal taxpayer. The fees should, therefore, in the view of the committee, be considered as fees for special services. (See S. Rept. No. 1467, 84th Cong.)

Information furnished to the committee indicates that the total earned fees of the Passport Office, when all operating expenses are included, are not now sufficient to cover all the cost of the services rendered. When the special services provided in connection with overseas operations, such as assistance rendered to travelers or citizens residing abroad, are considered, it becomes evident that there is a need for an adjustment in the passport fees. And, since the service is rendered for special groups or individuals, such beneficiaries should pay appropriate fees for such special services.

With the increased public demands for better service in the issuance of passports for their personal convenience, and the heavy costs that are involved both at home and abroad in servicing American travelers through the Passport Office, the Consular Service, and other agencies of the Department of State, it is the view of the committee that an increase of 100 percent or more in the fees for such services is fully warranted.

Recommendation No. 4. The Passport Office should be provided with its own accounting and internal audit system.

Under the present system, the accounting for the Passport Office is the responsibility of the Office of Finance, Department of State. It is recommended by accounting experts that there should be an agency accounting system established within the Passport Office on a double-entry basis, with a general ledger, in which all financial transactions should be recorded in detail or in summary, and additional subsidiary records should be kept, where necessary.

The accounting system should provide for budgetary control, for both revenues and expenditures, and the financial statements should reflect, among other things, budgetary information essential to the proper management of the financial affairs of the Office, and for the information of the Congress.

It is also recommended that an internal audit system should be established within the Passport Office, and that a periodic audit should be made by the General Accounting Office.

Conclusions

There were numerous other recommendations made by the reorganization survey team, most of which have been put into effect by administrative action, as outlined in this report. Under the administrative reorganization program, an official of the General Accounting Office assisted the Director of the Passport Office in establishing proper accounting procedures and systems; the General Services Administration has continued its assistance to the Director to insure that all procedures have been completely reviewed and simplified, that modernized equipment is installed and put into operation in order to effect the reorganization program, and a special team of records management experts was assigned to complete the program for revision and modernization of files and records of the Passport

Office. In addition, a representative of the Civil Service Commission assisted the Director in overall improvements in personnel administration and general management improvements in the overall operations of the Office.

The committee wishes to emphasize the growing importance and volume of the public service rendered by the Passport Office, and that this Office is in the unique position of being an important asset to the Department of State in its relations with the public.

Generally speaking, it is the one area in the Department which meets and serves the American public day in and day out, year after year. It has long had the reputation of rendering fine public service, until the ever-increasing workload and inadequate facilities overwhelmed its staff during the past year. With the fast-growing travel industry and the imminent impact of speed in transportation, the Passport Office becomes an increasingly important and significant service in our Government. It should continue to be a self-supporting and a revenue-producing office, and, as such, the committee suggests that it should be given more liberal administrative support and maintenance from the Department of State, to accord with the objective of the above recommendations.

APPENDIXES

Appendix A

List of Studies Made During the Survey of the Passport Office

Note.—In some cases presentation was made directly from worksheets and verbal instructions to install recommendations were given. Such studies are summarized in the general reports without a separate document having been prepared (or are represented herein by an installation document). Some of the studies were grouped around (*a*) the process of adjudicating and issuing passport applications, (*b*) controls over passports and the process of issuing them, (*c*) correspondence practices, (*d*) forms (including the form of the passport itself), and (*e*) recordkeeping. Approximately the same amount of manpower was used in each category.

A number of analyses by the Passport Office staff and the survey team, especially in regard to work flow and the testing of alternative applications, have not been listed, nor have such specialized studies as those relating to employee suggestions been included. The list was limited to the studies summarized in the weekly and monthly reports, or in the summary analyses, attached to the reports.

1. Preliminary Plan, Paperwork Management Assistance by National Archives and Records Service, GSA (May 25).
2. Emergency File-Sorting Procedures (June 15).
3. Plan for Inventorying of Blank Passport Books (June 5).
4. Detailed Procedures for Inventory and Control of Blank Passports (June 10).
5. Project for Expediting Adjudication of Passports (June 23).
6. Study of the Accuracy of the Main Case Files of the Passport Office (July 14).
7. Proposed Criteria for Expediting Adjudication Based on Case Analysis (July 1).
8. Reduction of Categories of Passports (July 1).
9. Emergency Filing Equipment Needs (June 20).
10. Emergency Filing (Staging Procedure) (June 25).
11. Case Analysis (300 Case Files) (July 1).
12. Statistical Data To Be Derived from Test Procedures (An analysis of objectives) (July 6).
13. Instructions for Implementing Test (Adjudication) Procedures (July 6).

14. Proposed Working Procedures for Application Review (July 6).
15. Team Criteria for Expediting Passport Examining (July 6).
16. Review of Correspondence in the Passport Office (Preliminary Study) (July 8).
17. Charge-Out Procedure for Studying Use of Files (July 18).
18. Report of a Preliminary Survey of the Correspondence of the Passport Office (July 21).
19. Recommended Disposition of Japanese Relocation Files (July 15).
20. Report of Disposal of Japanese Relocation Files (July 22).
21. Report of Analysis of Passport Application Case File (August 1).
22. Functional Organization Chart of Present Organization of Passport Office (August 1).
23. Report on Passport Agency—San Francisco—and Passport Activities of Clerk of United States District Court, Southern District of California (August 2).
24. Chart of Work Flow of Present Organization of the Passport Office (August 8).
25. Study of Shelf Filing for Passport Office (August 10).
26. Plant Layout for Shelving (August 12).
27. Suggested Paperwork Improvements (general report, comments, and recommendations on future project activities. This was a preview of work to be done). (August 30).
28. Form Letters (application of modern correspondence practices to Passport Office) (August 26).
29. Proposed Modification in Correspondence Practices of the Passport Office (August 26).
30. Proposed Assignments for Mail Control and Distribution (to develop an effective mail service) (August 25).
31. Specifications for File Shelving (August 20).
32. Shelving Procurement and Installation Plan (time schedule to meet move) (August 26).
33. Shelving Procurement Expediting Proposal (requesting special assignment from Federal Supply Service) (August 26).
34. Procedure for Packing Document Boxes for Shelving (August 20).
35. Correspondence With Foreign Service Posts (Advantages of Using Operations Memorandum Forms) (September 23).
36. Correspondence Control (training instructions) (September 12).
37. Internal Control Points (correspondence symbols) (October 3).
38. Internal Correspondence Control Personnel (assignments) (October 3).
39. Procedure for Handling Incoming Mail: Communications Section (September 16).
40. Procedure for Handling Outgoing Mail (September 16).
41. Routing Guide (procedures) (September 16).
42. Instructional Manual for Control Points (mail control) (September 16).
43. Mail Room Procedure for Handling Applications (October 3).
44. Correspondence Controls (elimination of certain items from the control card index) (September 29).
45. Release of Excess File Cabinets from the Passport Office (September 27).
46. Redrafting of Passport Office Application Forms (September 15).
47. Sampling Study of Used Passports to Determine Page Needs and Improved Format (September 28).
48. Adhesive Criteria (September 26).
49. Telephone Inquiry Procedures (September 21).
50. Filing Equipment for Telephone Inquiry Function (September 15).
51. Return of Birth and Baptismal Certificates (October 21).
52. Return of Birth and Baptismal Certificates—Review of Staff Comments (November 7).
53. Use of Window Envelopes for Passports (September 25).
54. Lamination Process Applied to Passports (October 21).
55. New Style for Correspondence of the Passport Office (October 26).
56. Statistical Analysis of 180,000 Letters Sent Out Each Year by Passport Office (October 26).
57. Estimate of Needs to Complete Shelving of All Old Records (October 5).
58. Cost Analysis of Proposed Project for Microfilming State Department Application Files (October 17).
59. Mailing of Passports, Postage Costs, and Registration Activities (October 20).
60. Proposed Procedure for Processing Routine Domestic Applications in Passport Office (October 20).

61. Reduction in Types of Passports and Passport Numbering System (October 10).
62. Passports of Other Countries (October 6).
63. Interim File Room Procedures (November 3).
64. Searching Aids (files) (November 3).
65. Use of Principal Name Folders (November 3).
66. Emergency Staging Procedures To Be Used With New Filing Methods (November 3).
67. File Handling Methods ("fanning," cycle sorting, etc.) (November 3).
68. Searching Procedures (November 3).
69. "Can't Finds" (failure to locate files) in Old Files (November 3).
70. Statistical Analysis of "Can't Finds" (November 3).
71. Letters Which May Be Answered in the Mail Room (November 23).
72. Forms and Equipment for Writing Control Cards and Envelopes (November 2).
73. Cost Analysis of Proposed Project for Microfilming State Department Passport Office Master Locator Card Index File (November 1).
74. Searching Applications Over the Master Index Files (November 1).
75. Equipment for New File System (November 11).
76. Installation of New File System—A Study of Backlogs and Other Problems (November 15).
77. Use of Contractual Assistance in Installing New Filing Equipment (November 23).
78. Statistical Analysis of Filing Backlogs (November 10).
79. Functional Assignments of Duties—File Room (November 23).
80. Final Revision of Passport Application and Renewal Forms (December 15).
81. Final Revision of Passport Book Format With Estimate of Savings (November 22).
82. Alphabetical Breaks in Files for Personnel Assignment Purposes (December 15).
83. Needs of Messenger Service Under New Procedures (December 15).
84. Status of Correspondence Study—Project Completion Study (December 12).
85. Installation Criteria Required Re New Procedures (December 12).
86. Refusal Procedure (December 15).
87. Test of New Procedures (an analysis of workload requirements) (December 15).
88. Tabulation of Time Required To Process 196 A–G Applications During Test on December 12, 1955 (December 15).
89. Test Procedures: Records Preparation (December 15).
90. Test Procedures: Control Index (December 15).
91. Test Procedures: Passport Adjudication and Related Control (December 15).
92. Test Procedures: Cashier and Passport Writing (December 15).
93. Test Procedures: File Search Operations (December 15).
94. Use of Files in Passport Office: Summary of Comments and Recommendations (December 28).
95. Eight-Day Study of Present Use of Files (December 20).
96. Study of Master Card Index (December 23).
97. Study of Misfiles in Boxed (1940–55) Files (a restudy of "drift" of files and evaluation of "can't find" problem when new procedures are applied) (December 23).
98. Instructions to Staff Needed To Install New Filing Procedures (analysis of schedule and preparation of specific instructions to move from old system to new without disruption) (December 22).
99. Analysis of Present Refiling Procedure (January 17).
100. Design and Text of Diplomatic Special and Service Passport Books (January 19).
101. Studies in Regard to Installation of New Processing Procedures, Including Preparation of Work Assignment Sheets (in process).
102. Comparison of Personnel and Production as of May 1955 to That Required by Adoption of New Procedures (confined to certain operations in Domestic Adjudication Division) (January 25).
103. "Correspondex" Guides (all form letters of the Domestic Adjudication Division, with their instructions. This is the product of many specific studies) (January 31).

APPENDIX B

The volume of passports issued and renewed in the United States increased 240.3 percent in the past decade according to statistics compiled by the Passport Office.

In 1912, the Passport Office issued or renewed 21,719 passports; in 1922 this number increased to 137,551. In 1932 there were 153,218 passports issued or renewed; in 1942, 129,985; in 1952, 395,337; and in 1955 a total of 528,009 passports were processed for use by American citizens leaving the United States. (See tabulation No. 1.)

The month-by-month increases in the past 5 years are notable. (See tabulation No. 2.) The last quarter of 1955 showed an increase of 18 percent in passports issued or renewed over the last quarter of 1954. October 1955 was 23.5 percent over October 1954; November 1955 was 18.2 percent over November 1954; and December 1955 was 13.2 percent over December 1954.

The rate of increase for 1956 is forecast at approximately 17.4 percent over 1955. The month of January 1956 is already estimated at 15.6 percent over January 1955.

TABULATION NO. 1.—*Domestic passports issued and renewed: 1912–55*

1912	21,719	1927	182,425	1942	[1] 129,985
1913	23,453	1928	189,308	1943	[1] 137,876
1914	20,320	1929	196,930	1944	[1] 141,107
1915	23,119	1930	203,174	1945	[1] 155,153
1916	23,118	1931	163,404	1946	[1] 188,935
1917	37,615	1932	153,218	1947	202,424
1918	56,822	1933	106,991	1948	230,435
1919	97,952	1934	111,673	1949	268,863
1920	160,488	1935	118,101	1950	299,665
1921	137,685	1936	141,996	1951	290,407
1922	137,551	1937	168,016	1952	395,337
1923	125,656	1938	134,737	1953	418,170
1924	146,378	1939	89,850	1954	452,049
1925	172,209	1940	26,253	1955	528,009
1926	176,033	1941	49,757		

[1] Includes passports issued to American seamen.

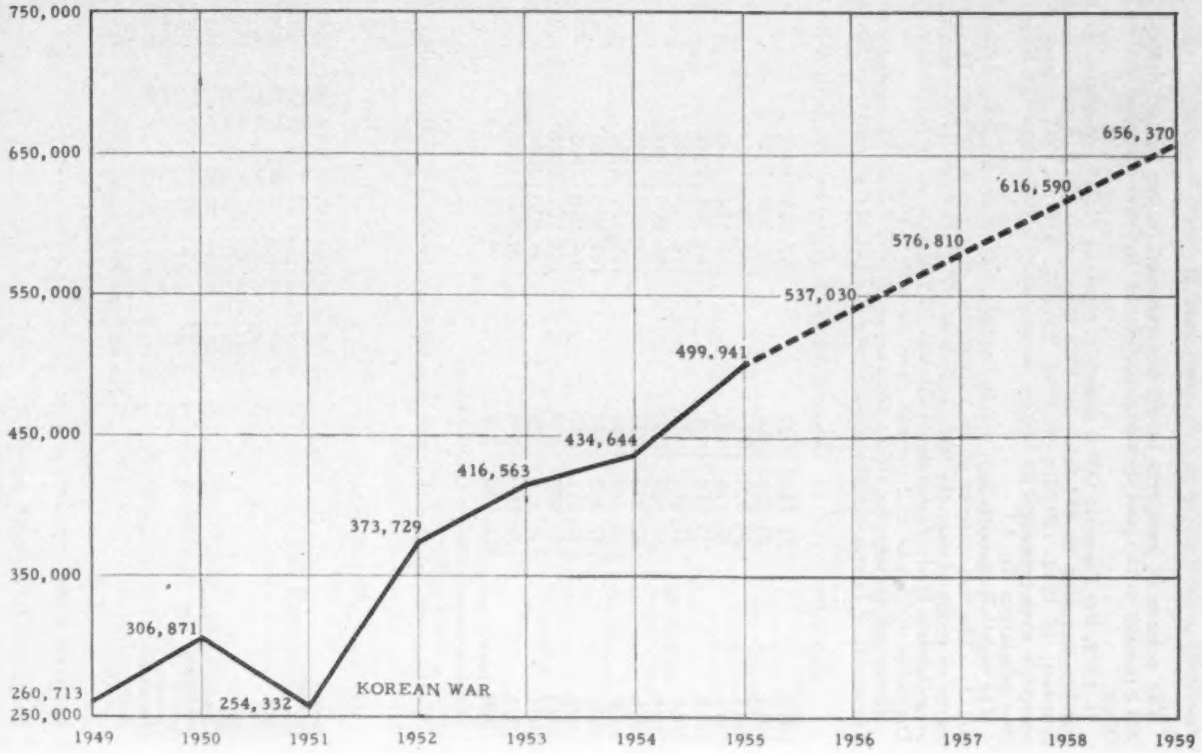
TABULATION NO. 2.—*Domestic passports issued and renewed, monthly: 1950–55*

	1950	1951	1952	1953	1954	1955
January	22,067	16,632	27,374	26,700	29,069	34,356
February	30,156	17,067	31,638	40,199	34,695	40,173
March	39,187	26,113	44,164	47,501	53,990	56,399
April	36,607	30,227	48,658	57,560	58,430	60,675
May	41,453	35,678	51,528	53,901	56,776	71,055
June	41,233	39,653	45,330	44,057	53,432	71,626
July	21,635	27,411	34,140	36,929	36,707	40,624
August	18,037	24,670	29,361	26,472	34,263	40,963
September	13,827	17,398	25,062	23,999	26,023	31,086
October	13,827	19,602	21,497	21,103	21,659	26,746
November	12,115	18,364	17,109	18,351	22,000	25,996
December	10,614	17,592	19,466	21,398	25,005	28,310
Total	299,665	290,407	395,337	418,170	452,049	528,009

APPENDIX C

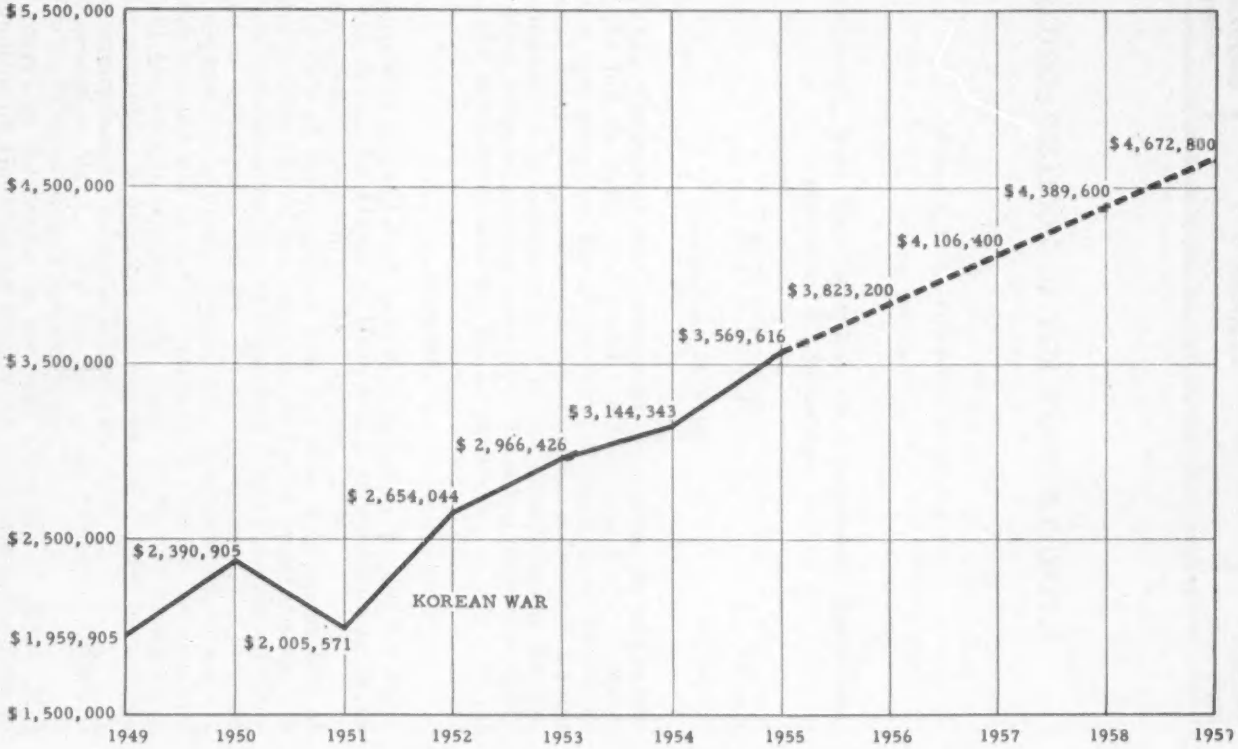
PASSPORTS AND RENEWALS ISSUED

FISCAL YEARS 1949 - 1955 ACTUAL AND 1956 - 1959 PROJECTED



PASSPORT FEES COLLECTED

FISCAL YEARS 1949 - 1955 ACTUAL AND 1956 - 1959 PROJECTED



Calendar No. 1628

84TH CONGRESS, 2d Session } SENATE { REPORT No. 1605

REORGANIZATION OF THE PASSPORT OFFICE

MARCH 1, 1956.—Ordered to be printed

Mr. HUMPHREY, from the Committee on Government Operations, submitted the following

REPORT

[To accompany S. 3340]

The Senate Committee on Government Operations, to whom was referred the bill (S. 3340) to transfer the functions of the Passport Office to a new agency of the Department of State to be known as the "United States Passport Service," to establish a Passport Service fund to finance the operations of the United States Passport Service, and for other purposes, having considered the same, report favorably thereon, and recommend that the bill do pass.

PURPOSE

The purpose of this bill is set forth fully in Senate Report No. 1604, filed in the Senate on March 1, 1956, which also outlines in detail the reorganization program of the Passport Office.

It is the view of the committee that the present reorganization of the Passport Office should not only provide for its existing needs, but should take into consideration the impending flood of passport applications, and its future requirements. To be fully utilized, the program should be planned so as to meet demands for services which competent authorities indicate will be made upon it in the next 6 months, and which will continue to increase each year. With this objective in view, the committee recommends the approval of S. 3340 to conform to its recommendations in Senate Report No. 1604:

Recommendation No. 1. That the title of the "Passport Office" be changed to the "United States Passport Service."

In a report to the Senate in the 80th Congress (S. Rept. 243) the Committee on Government Operations recommended the establishment of a program for the improvement and promotion of a consistent pattern of nomenclature in the executive branch of the Government. The committee has repeatedly urged all agencies of the Government, in effecting reorganizations, to adhere as closely

as possible to the formula prescribed in its original report in order to bring about more uniformity in the organizational structure of the Government. The overall objective was to identify clearly the relative importance of the various types of activities, and to bring about a better understanding on the part of the public of the nature and type of Government services that were being performed in the general public interest.

The Commission on Organization of the Executive Branch of the Government (the first Hoover Commission) adopted the committee's recommendations for uniformity of nomenclature in its report on Management of the Executive Branch, and recommended (recommendation No. 21) that the internal operating organizations of each department should follow a standard nomenclature. The Commission stated in that report that the term "Office," as used therein, should refer to staff agencies which served the President or his department heads, and that the designation "Service" should be injected into the operating structure.

The Committee on Government Operations, in its Annual Report on Organization of Federal Executive Departments and Agencies, on March 25, 1949, concurred in this definition in the Hoover Commission report, and stated (Committee Print No. 5, 81st Cong.) that "the term 'Office' will designate *staff agencies* which serve directly under the administrative head of an establishment or component and are directly responsible to such official."

The designation of the Passport *Office* within the Department of State, therefore, clearly conflicts with the prescribed standard nomenclature, since that agency performs a direct service to the public (as well as to the Department of State). Since it is an operating unit and not a staff office, as defined under the above standards, it should be so designated as to conform to its status within the Department. In order to give proper recognition to the exact nature of its operations, the pending bill provides that the title of the "Passport Office" be changed to the "United States Passport Service." In the view of the committee, favorable action on this provision of the bill would rectify the present misnomer and more clearly define the nature of its operations as a semiautonomous operation.

The bill further provides that the Director be appointed under the classified civil service, which position shall be allocated to grade 18 of the General Schedule as prescribed in the Classification Act of 1949, as amended, to conform to the importance of the duties and responsibilities of the head of an operating agency. The Director is not required to make policy determinations and, in the view of the committee, should be an administrative official in the career service, since the agency would continue to operate under basic laws enacted by the Congress which clearly establish its fees, policies, and other functions.

Recommendation No. 2. That a passport service revolving fund be created, under an established ceiling, in order to provide a means of financing which will permit the Passport Office to meet expanding or contracting activities caused by seasonal or extraordinary conditions.

The purpose of the fund would be to provide a business-type operation, with more flexible authority to meet constantly changing personnel and supply requirements during the peak season, which make unpredictable demands on its services. The purpose would be to provide (1) more accurate computations of cost, (2) simpler

accounting device for recording fees received and expenses incurred, and (3) a means for defraying expenses directly out of fees collected.

The fund would also provide a means for the Congress to evaluate more accurately the fees received, and to insure that the Office will continue on a high level of performance. Expenditures of the Passport Office will vary with the demand for services and, if rigidly controlled, as at present, the procurement of the necessary funds with which to finance activities attuned to fluctuation of overseas travel are unnecessarily delayed.

Section 3 of the bill, which would provide for legislative authority for the establishment of such a fund, also provides for the removal of the requirement that passport fees, as received, be covered into the Treasury of the United States as miscellaneous receipts, and authorizes their conversion into the passport service fund, which, upon attaining a specified ceiling of $1 million, would then require that any excess should be covered into the Treasury.

This section of the bill would enable the Passport Office to maintain a high level of performance by (*a*) the procurement and replacement of mechanical equipment as operations require; (*b*) promote the utilization of modern methods for the processing of passport applications, and the improvement of records management and administrative controls; (*c*) provide funds for extraordinary printing requirements when found to be necessary; and (*d*) the employment of needed personnel to meet peak workload requirements.

The establishment of a revolving fund, under ceiling limitations with sufficient latitude to meet these objectives, is, in the view of the committee, the best method of procedure to insure that the needs of the Office can be met in the immediate future. If approved by the Congress, however, the Director and the Comptroller General of the United States will be urged to carefully study and analyze the operations of the funds, with a view to recommending any supplemental action that may be found to be desirable, or which would afford improved operating and budgetary controls after the program has been thoroughly tested.

The bill also requires that the Passport Office comply with existing business-type budget provisions of law, and that periodic audits be made by the General Accounting Office.

In proposing the creation of this fund, the committee believes that only directly relatable costs under the control of the Passport Office should be included, and that the annual surplus of the fund (i. e., excess of receipts over direct costs) which is to be transferred to the Treasury as miscellaneous receipts would, in part at least, represent general reimbursement for indirect costs not paid out of the fund.

Under this approach, the following are examples of what the committee considers to be directly relatable costs to be included as costs of the fund:

(1) All salaries of Passport Service personnel (both temporary and permanent) along with related overtime pay, FICA, terminal leave pay, etc.
(2) All travel costs of Passport Service personnel.
(3) Office rent, telephone service, and necessary utilities.
(4) Communication charges, postage, etc.
(5) Printing.

(6) Supplies and equipment purchased and used by the Passport Service.

(7) Depreciation of equipment capitalized as part of the passport fund.

(8) Any other costs directly under the control of the Passport Service.

The following are cited as examples of indirect costs which would, in the view of the committee, not be paid out of the passport fund:

(1) The Government's share of the cost of the civil-service retirement system and unemployment compensation fund.

(2) Any pro rata allocation of general overhead of the State Department or other charges which are performed as a regular part of its normal function for all components of the Department. Any charges for special services required by the Passport Service, which additional costs can be identified, may be included on a reimbursement basis.

(3) Pro rata allocations of the costs of Government service or control agencies (such as the General Accounting Office, Bureau of the Budget, Civil Service Commission, General Services Administration, etc.), except to the extent that the general policy is in effect for such agencies to charge fees for particular services to the Passport Office.

(4) Costs of conducting operations for passport services in overseas posts.

The committee cites these examples, which conform to the views of competent Government officials who are familiar with the operations of the Passport Office, but does not take the view that all other services are excluded, or that all payments from the fund must necessarily conform to these specified areas of expenditure.

Recommendation No. 3. That passport and renewal fees be increased by 100 percent, to conform to increased service costs.

The present passport fees were established under the act of May 16, 1932 (U. S. Code, title 22, sec. 217a). According to information furnished to this committee, increases in salaries and other expenses in the Passport Office and other Government agencies approximate 125 percent, and statistical information compiled by various Federal agencies indicates that other cost indexes show increases have averaged in excess of 100 percent within the past 20 years. Based upon these cost factors, and the necessary increase in the rental of enlarged quarters, the procurement of new equipment, and essential personnel requirements to meet the stepped-up tempo for the issuance of passports promptly, there is clear evidence that the passport fees should be increased proportionately. This provision of the bill accords with the recent action taken by the Congress in approving legislation to increase the fee for executing passport applications handled by State officials from $1 to $2 (Public Law 403; S. Repts. No. 1370 and No. 1467, 84th Cong.).

Passport fees, except in a limited number of cases, are paid by persons who are traveling on pleasure or business, and, in most instances, constitute a fee for special services which will be paid largely by persons who are in a much more favorable position to pay for such services than the average Federal taxpayer. The fees should, therefore, in the view of the committee, be considered as fees for special services. (See S. Rept. No. 1467, 84th Cong.)

Information furnished to the committee indicates that the total earned fees of the Passport Office, when all operating expenses are included, are not now sufficient to cover all the cost of the services rendered. When the special services provided in connection with overseas operations, such as assistance rendered to travelers or citizens residing abroad, are considered, it becomes evident that there is a need for an adjustment in the passport fees. And, since the service is rendered for special groups or individuals, such beneficiaries should pay appropriate fees for such special services.

With the increased public demands for better service in the issuance of passports for thier personal convenience, and the heavy costs that are involved both at home and abroad in servicing American travelers through the Passport Office, the consular service, and other agencies of the Department of State, it is the view of the committee that an increase of 100 percent or more in the fees for such services is fully warranted.

Recommendation No. 4. The Passport Office should be provided with its own accounting and internal audit system.

Under the present system, the accounting for the Passport Office is the responsibility of the Office of Finance, Department of State. It is recommended by accounting experts that there should be an agency accounting system established within the Passport Office on a double-entry basis, with a general ledger, in which all financial transactions should be recorded in detail or in summary, and additional subsidiary records should be kept, where necessary.

The accounting system should provide for budgetary control, for both revenues and expenditures, and the financial statements should reflect, among other things, budgetary information essential to the proper management of the financial affairs of the Office, and for the information of the Congress.

The subject bill, as reported by the committee, provides that an internal audit system shall be established within the Passport Office, and that a periodic audit be made by the General Accounting Office.

CONCLUSIONS

The committee wishes to emphasize the growing importance and volume of the public service rendered by the Passport Office, and that this Office is in the unique position of being an important asset to the Department of State in its relations with the public.

Generally speaking, it is the one area in the Department which meets and serves the American public day in and day out, year after year. It has long had the reputation of rendering fine public service, until the ever-increasing workload and inadequate facilities overwhelmed its staff during the past year. With the fast-growing travel industry and the imminent impact of speed in transportation, the Passport Office becomes an increasingly important and significant service in our Government. It should continue to be a self-supporting and a revenue-producing office, and, as such, the committee suggests that it should be given more liberal administrative support and maintenance from the Department of State, to accord with the objective of the above recommendations, and as provided under the pending bill.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows:

EXISTING LAW	PENDING BILL
§ 1004. * * * (c) Passport Office, Visa Office, and other offices; directors. Within the Bureau there shall be a Passport Office, a Visa Office, and such other offices as the Secretary of State may deem to be appropriate, each office to be headed by a director. The Directors of the Passport Office and the Visa Office shall be experienced in the administration of the nationality and immigration laws. (d) Same; transfer of duties. The functions heretofore performed by the Passport Division and the Visa Division of the Department of State shall hereafter be performed by the Passport Office and the Visa Office, respectively, of the Bureau of Security and Consular Affairs.	That all functions, powers, duties, and authority of the Passport Office of the Bureau of Security and Consular Affairs, Department of State, together with those funds, liabilities, commitments, authorizations, allocations, personnel, properties, and records of the Department of State which the Secretary of State shall determine to be primarily related to and necessary for, the exercise of such functions, powers, duties, and authority, are hereby transferred to the United States Passport Service, established pursuant to section 2 of this Act.
(New matter is printed in italics, existing law in which no change is proposed is shown in roman): § 217a. Validity of passport or visé; limitation of time; renewal; charge for original passport. The validity of a passport or passport visé shall be limited to a period of two years: *Provided*, That a passport may be renewed under regulations prescribed by the Secretary of State for a period, not to exceed two years, upon payment of a fee of [$5] *$10* for such renewal, but the final date of expiration shall not be more than four years from the original date of issue: *Provided further*, That the Secretary of State may limit the validity of a passport, passport visé, or the period of renewal of a passport to less than two years: *Provided further*, That the charge for the issue of an original passport shall be [$9] *$18*.	SEC. 2. There is hereby established in the Department of State an agency to be known as the "United States Passport Service" (hereinafter referred to as the "Service") which shall be headed by a director who shall be appointed by the Secretary of State in accordance with the civil service laws, and whose position shall be allocated to grade 18 of the general schedule as prescribed in the Classification Act of 1949, as amended. SEC. 3. (a) There is hereby established a fund for the Passport Service (hereinafter referred to as the "fund"). The fund shall be capitalized on the basis of— (1) an initial appropriation by the Congress to the fund of a sum which, together with the unexpended balances of any appropriations transferred to the Service pursuant to the first section of this Act, does not exceed $1,000,000, which sum is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated; (2) any unexpended balances of appropriations, the inventories, receivables, and other physical assets of the Service transferred to the

EXISTING LAW

PENDING BILL

Service pursuant to the first section of this Act (exclusive of buildings occupied and land), such inventories and other physical assets to be capitalized at fair and reasonable values to be determined by the Secretary of State; and

(3) assumption by the fund of all obligations, commitments and liabilities of the Service as of the effective date of this Act.

(b) The fund shall include all property and other physical assets acquired by the Service (except buildings and land), and there shall be deposited into the fund all amounts received for services performed by the Service, and all other amounts received by the Service from whatever source derived, including all proceeds arising from disposition of any property or other assets acquired by the fund.

(c) The fund shall be available without fiscal-year limitation for financing the direct costs and expenses of operating and maintaining the Service.

(d) All amounts received for passport fees in excess of $9 for each original passport and of $5 for each renewal of a passport shall be deposited at least annually into the general fund of the Treasury as miscellaneous receipts. Any surplus accruing to the fund in any fiscal year shall be deposited into the general fund of the Treasury as miscellaneous receipts during the ensuing fiscal year; except that any such surplus may be applied first to restore any impairment of the capital of the fund.

SEC. 4. In accordance with the provisions of existing law—

(a) The Secretary of State shall prepare and submit an annual business-type budget program for the Service.

(b) There shall be installed and maintained in the Service an integrated system of accounting, including proper features of internal control, which will (1) assure adequate control over all assets and liabilities of the fund, (2) afford full disclosure with respect to the financial conditions and operations of the fund according to the accrual method of accounting, and (3) supply on the basis of accounting results the data for the annual budget of the Service with respect to the last completed fiscal year. The system of accounting shall conform to principles and standards prescribed by the Comptroller General of the United States so as to accomplish the purposes of this section, and shall be subject to such review by the Comptroller General as may be necessary to

EXISTING LAW

PENDING BILL

assure its conformance with the principles and standards prescribed and its effectiveness in operation.

(c) The financial transactions, accounts, and reports of the fund shall be audited on a periodical basis by the General Accounting Office and a copy of each report or audit shall be furnished promptly to the President, the Congress, and the Secretary of State.

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84TH CONGRESS, 2d Session } SENATE { REPORT No. 1606

JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

ON THE

JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

WITH

SUPPLEMENTAL AND MINORITY VIEWS

AND THE

ECONOMIC OUTLOOK FOR 1956 PREPARED BY THE COMMITTEE STAFF

84TH CONG., 2D SESS.

MARCH 1, 1956.—Ordered to be printed, with illustrations

UNITED STATES
GOVERNMENT PRINTING OFFICE
73739 WASHINGTON : 1956

JOINT COMMITTEE ON THE ECONOMIC REPORT

(Created pursuant to sec. 5 (a) of Public Law 304, 79th Cong.)

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84TH CONGRESS } SENATE { REPORT
2d Session } { No. 1606

JOINT ECONOMIC COMMITTEE REPORT ON THE JANUARY 1956 ECONOMIC REPORT OF THE PRESIDENT

MARCH 1, 1956.—Ordered to be printed, with illustrations

Mr. SPARKMAN (for Mr. DOUGLAS), from the Joint Committee on the Economic Report, submitted the following

REPORT

together with

SUPPLEMENTAL AND MINORITY VIEWS

[Pursuant to sec. 5 (a) of Public Law 304, 79th Cong.]

INTRODUCTION

The 10th anniversary of the Employment Act of 1946 finds the objectives and machinery of the act firmly established. The act and its operation demonstrate that a free enterprise system has the determination and ability to maintain a high degree of economic stability and to achieve a rate of economic growth which is the envy of the world.

The act acknowledges the responsibility of the Federal Government for using its programs, for coordinating its activities with State and local governments, and for maintaining an appropriate climate for private enterprise, all in the interests of maximum employment, production, and purchasing power. Confident in this assurance, public and private policymakers have gone ahead during the decade since the act was passed providing the Nation with the dynamic force which has overcome most problems of postwar adjustment. The economy has met the heavy demands upon our resources of the Korean war and a long-run security program. We have overcome postwar inflation and two recessions. At the same time, there has been an increase of about one-sixth in per capita real goods and services exclusive of amounts going for defense. Some may have had misgivings with respect either to its implications or its effectiveness when the act was passed 10 years ago. The record of the decade has amply dispelled these fears.

In reviewing and analyzing the 1956 Economic Report of the President, looking primarily to the year ahead, as this committee must as a guide to the legislative committees, we have received testimony

from officials in the administration and heard from nongovernmental experts of varying views. (See hearings on the January 1956 Economic Report of the President, before the Joint Committee on the Economic Report, 84th Cong., 2d sess.) In preparing this report, we have drawn heavily upon the work of five subcommittees and their reports submitted to the Congress early in January 1956. (See appendix A for a summary of the recommendations of these five subcommittees, pp. 103–112.)

We recognize the reluctance of the present Chairman of the Council of Economic Advisers to discuss fully and freely for the record the implications and assumptions of the Economic Report. The committee is not ready to pass final judgment on the merits of this position. But in the interests of consistency, we feel Council members who take this position should likewise avoid the role of policy spokesmen for the administration through the press, the air waves, and the speaker's platform.[1]

In spite of inevitable differences of opinion as to details, timing, and emphasis, we find important points upon which members of the committee agree as to the current economic situation and appropriate policy for the future.

Findings and Recommendations

1. From the standpoint of the overall economy, 1955 was clearly a good year and in most respects a record one. Expansion brought with it a 6.1 percent increase in real national output. Goods and services actually available for private use were some 9 percent higher, since Government purchases were lower for the year.

2. It seems unlikely that this rate of expansion can be maintained in 1956. Recent low levels of unemployment and unused industrial resources tend to limit the pace of further immediate expansion in real output.

3. The challenge for the coming year is thus one of adjusting to a more sustainable pattern of balanced growth—of adjusting to a rate consistent with rising productivity and growth in the labor force, avoiding the excesses of inflation and rising prices on the one hand, or renewed recession and rising unemployment on the other. The committee staff materials suggest that if we maintain the recent degree of utilization of our resources, we should achieve a gross national product of about $405 billion in 1956 in constant prices. This would call for continued restraints to prevent further industrial price rises. Whether a smaller gross national product would warrant stimulative fiscal and monetary policies can be determined only as events unfold.

4. Events of the past year further substantiate the likelihood that the struggle against Communist ideology throughout the world is developing into a long drawn-out test of economic strength. This emphasizes the necessity for getting the economy on a sustainable long-run pattern of growth without losing ground even temporarily. It calls, moreover, for maximum use and development of the Nation's and free world's resources—both human and material.

5. The Nation continues, as we observed last year, to have the economic capacity to meet not only the immediate and long-run

[1] Mr. Talle. This paragraph should have been deleted from the report. The third sentence points to differences of opinion held by members of the Joint Economic Committee, and until those differences are resolved, the attempt to restrict free speech cannot, in my opinion, be justified.

national security requirements but, along with them, the needed programs in the social and economic fields. We agree with the President's saying:

> Provision for schools, highways, and medical facilities must be substantially increased. Action in these vital areas has lagged sadly behind our accumulating needs. (January 1956 Economic Report of the President, p. 12.)

Differences of opinion as to how rapidly these admitted needs of our growing economy should be taken care of are less important than agreement that we must and can move ahead rapidly and simultaneously on varied fronts.

6. A basic guide to Federal fiscal policy in the year ahead should be the state of the national economy. Tax reduction in the face of a booming economy, already pressing the limit of immediate resources, would probably be inflationary. So long, therefore, as the expansionary movement gives promise of continuing, tax policy consistent with stabilizing the rate of economic growth calls for applying anticipated budget surpluses to reduction of the bank-held Federal debt. This is but a corollary to a policy which recognizes that we may not be able to avoid deficits during recessions. The committee, therefore, endorses the President's recommendation for maintaining corporation income tax and excise tax revenues at present levels. In arriving at these views, the committee is strongly persuaded by the findings and recommendations of its Subcommittee on Tax Policy as set forth in its recent report (S. Rept. No. 1310, 84th Cong., 2d sess.).

7. The economic outlook may, of course, change rapidly. Should it become apparent that economic activity is slowing unduly and a higher rate of increase in total demand is required to provide the impetus for maintaining the full use of our growing productive capacity, tax reduction may become warranted. Two additional observations made by our Subcommittee on Tax Policy should, in our opinion, be underscored. First, economic growth and stability should permit reduction in Federal tax rates during the next decade; and, second, revision of the tax structure in the interest of equity and balanced growth of the economy is in order now, as always.

8. The committee is alarmed by the continued decline in farm prices and agricultural income. Because of the highly competitive nature of agriculture; because of the relatively inelastic demand for most agricultural products; and because of the national need for substantial standby productive capacity to meet the needs of increasing population, and against the hazards of war and crop failure; agriculture as an industry will continue to present unique and difficult problems. Certainly the solutions thus far brought forward have not been adequate.

What we as a Nation want is a program which will permit agriculture as an industry, and our farmers as individuals, to have an opportunity to share in the prosperity and growth of the economy without the cost of wide fluctuations in farm income and the steady accumulation of surpluses above the needs for reasonable reserves. The problem is not insurmountable, although the record of attempts to meet it has not been particularly encouraging. Granting that it is difficult to bring forth panaceas, there is still opportunity for the administration, the Congress, and others to come forward with sound, workable plans; there is still the obligation on us all to weigh sympathetically any fresh or different approach to a solution.

We believe, as indicated in our reports of recent years, that neither contraction of acreage nor rigid high support, nor even flexible price supports can of themselves in the long run be successful. We believe, however, that an effective plan for income protection is an essential element and perhaps offers the best approach to an adequate agricultural program. In the interest of equity and economy, we endorse the President's proposal for a dollar limit on the size of payments or support loans to any one individual or farming unit.

In the face of the persistent agricultural decline, we must accept the expedient contained in the President's Economic Report for a "soil bank" as a desirable aid in helping avoid further additions to our already large surpluses. Largely persuaded by the extent of the recent decline, we feel compelled also to accept, as a temporary expedient, strong price supports.

On the side of consumption, we continue to urge a bold, effective program for the disposal of present surpluses above prudent reserve stocks. Programs to expand domestic and foreign consumption, and intensive research in developing new uses for agricultural products must be encouraged, although they have thus far proven insufficient. We ought, in any case, to take the steps which humanity dictates and use the surpluses for supplementing the diets of those inadequately fed in this country and abroad. Any method employed to this end, of course, must be designed to avoid displacement or disturbance to the normal national and world markets for the products involved.

In addition to efforts to raise farm income and to avoid the accumulation of excessive surpluses, every effort must be made to reduce farming costs. In this connection, antitrust policy and the encouragement of small business and farm cooperatives can make important contributions.

Finally, we would repeat the earlier recommendations of this committee and those of the Subcommittee on Low-Income Families, calling for comprehensive programs to assist small and low-income farmers by way of credit facilities, technical assistance, enhanced industrial opportunities, and otherwise (S. Rept. No. 1311, 84th Cong., 2d sess.). The President, recognizing this need, made recommendations in this field last summer and again in the recent farm message.

9. The Economic Report of the President assumes rapid technological change. We commend the finding of our Subcommittee on Economic Stabilization that no broad-gage economic legislation appears to be called for at this time since we already have the Employment Act of 1946. An active and sincere carrying out of that act, aimed at the maintenance of a healthy, dynamic, and prosperous economy, will provide the best help in meeting the problem of automation (S. Rept. No. 1308, 84th Cong., 2d sess.).

10. The President this year lends support to our unanimous recommendation of last year that a comprehensive program is needed for dealing with excessive unemployment in economically depressed industrial areas. This committee's Subcommittee on Low-Income Families has made important recommendations in this respect, which we commend to the legislative committees presently considering these problems.

11. Construction of schools, highways, and hospitals, as the President observes, must move forward more rapidly during the immediate years ahead. The evidence submitted to our Subcom-

mittee on Economic Stabilization during its study of automation clearly pointed out the need and documented the necessity for improved educational facilities and improved teaching. We again commend a program for modernizing the interstate highway system. We note that the President's current views appear more consistent with this committee's unanimous position taken in our last report, that financing should be directly from the Treasury rather than from indirect authorities which circumvent the public debt limit or are supported by special earmarked revenues.

12. The United States should, as recommended by the President, approve the agreement calling for participation in the Organization for Trade Cooperation. The United States should, we believe, continue to champion multilateral trade. As the Foreign Economic Policy Subcommittee of this committee recently pointed out, the instrumentalities of the General Agreement on Tariffs and Trade and the proposed Organization for Trade Cooperation offer the best immediate opportunities for easing free-world trade and speeding progress in lowering barriers against United States exports. The safeguards against domestic injury which the subcommittee recommends are likewise worthy of consideration (S. Rept. No. 1312, 84th Cong., 2d sess.).[2]

13. We agree with the President that present conditions do not call for the use of governmental authority to limit terms of consumer installment credit. The placing of limits on the economic freedom of our citizens should be avoided whenever possible. However, excessive competitive liberalization of credit terms can in the long run lead to short hours and unemployment. Unless private enterprise exercises self-discipline, if the situation demands, it may be necessary to reestablish standby Federal authority in order to protect the overall economy against needless fluctuations in employment.

We agree, accordingly, with the suggestion that power to regulate terms of consumer installment credit be restudied. We feel, however, that installment credit is such an integral part of the modern debt structure that it should not be isolated in this study from consideration of government, corporate, and private debt as a whole. It is appropriate to note that this committee and its subcommittees have over the years given consideration to the terms and role of consumer credit. We shall continue to give consideration to this problem.

14. In the interests of fostering free competitive enterprise and preserving and increasing opportunities for small independent business, we especially commend as a minimum program the President's recommendations for strengthening Federal antitrust policy. This would include increasing appropriations for law enforcement, extending antitrust control over proposed mergers, and strengthening administrative procedure under the antitrust laws. Even more vigorous action is, in our opinion, called for to meet the objectives of the Employment Act.

15. Views vary as to the internal consistency of the economic assumptions underlying the President's budget and Economic Report. These reports seem to some to be ambiguous, although all adminis-

[2] Senator FLANDERS. While a persuasive case is made for OTC, and while I shall support it in committee, it will result in a typical expansion of bureaucracy where there was none before. I shall introduce a suggestion for a continuing authorization of only a moderate appropriation.

Mr. TALLE. I reserve final judgment on the merits of United States participation in OTC until hearings before the House Ways and Means Committee have been completed.

tration witnesses testified as to their consistency. We realize this is a continuing problem of the executive branch. We had hoped that creation of the Advisory Board on Economic Growth and Stability in 1953 would provide machinery for the development of internally consistent economic assumptions upon which to base the Presidents' economic program.

We recommend that more vigorous efforts be made in the future to assure the coordination of the assumptions underlying the various parts of the budget, and of the budget with the Economic Report, with a clear statement of their assumptions and their implications in these state documents.

The inquiries and efforts of the committee staff to reconcile and appraise the assumptions underlying the budget and Economic Report have been helpful. We feel, however, that an obligation rests upon the Council of Economic Advisers to take the leadership in efforts to coordinate the assumptions underlying the Government's entire economic program and to supply these promptly to the Congress through the Economic Report. We regret that the Economic Report again this year was transmitted so late, January 24, thus making it difficult for the committee to meet its March 1 statutory deadline. The report should be transmitted at the "beginning of each regular session," as provided by law.

16. We are pleased to note in the President's budget again this year the recognition of the importance of additional economic statistics. The statistical programs have been under continuing study by our Subcommittee on Economic Statistics. Although the Economic Report made much use of available data, it did not discuss the importance to economic management of improving the various statistical programs as called for in the budget.

We urge the Congress to give strong support to the proposals in the current budget for additional funds for improving our sources of economic intelligence. In the long run, such expenditures to enable early and correct diagnosis of imbalances will make a greater contribution to our economic stability and growth per dollar spent than the much larger sums needed to correct difficulties discovered only after they have grown large and menacing. The response of the Congress to the President's similar recommendations last year was gratifying but not sufficient.

17. The committee is substantially in agreement in approving and urging support for the other recommended programs contained in the President's Economic Report. They already are being or will be considered by other congressional committees in connection with proposals for specific legislation. The committee is, however, of the opinion that the proposals as a whole represent a minimum program which in some respects does not go far enough.

18. The summary of the recommendations in the Economic Report includes some 50 or 60 specific items. There is, indeed, considerable diffusion and multiplicity of recommendations—some major, some minor—which prompt us to recall the warning of the first detailed report of this committee, filed with the 80th Congress, against the danger that the Economic Report and its consideration "be diverted to matters which cannot have an extensive effect on the overall economy" (S. Rept. No. 1358, 80th Cong., 2d sess., p. 2).

Committee Activities of the Past Year and Plans for the Coming Year

The Joint Committee on the Economic Report is directed to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy. During the period January–March of 1955 the committee held hearings and prepared its report on the 1955 Economic Report of the President. Upon completion of this work, the committee directed five subcommittees to study several specific areas. These subcommittees will be continued in 1956. The work of the committee and its subcommittees during the past year and plans for the coming year are summarized below.

President's 1955 Economic Report

Hearings on the January 1955 Economic Report of the President were held January 24 through February 16, 1955. Testimony was received from key officials in the executive departments, and panel discussions were held with technicians from business, labor, agriculture, government, universities, and research agencies. These hearings dealt with fiscal, monetary, foreign economic, antitrust, and agricultural policies; with problems of regional and industrial unemployment, public works, and economic statistics; and with an appraisal of the economic philosophy and facts underlying the President's Economic Report. The committee's report on the President's Report was transmitted to the Congress on March 14, 1955 (S. Rept. No. 60, 84th Cong., 1st sess.). It included supplemental views of committee members and materials on the economic outlook for 1955 prepared by the committee staff. Permission to file the committee's 1955 report later than the March 1 statutory deadline and up to March 15 was granted in the House on February 24, 1955, and in the Senate on February 25, 1955.

Subcommittee on Foreign Economic Policy

The Subcommittee on Foreign Economic Policy is composed of Representative Richard Bolling, chairman; Senator Paul H. Douglas, Senator J. W. Fulbright, Senator Ralph E. Flanders, and Representative Henry O. Talle.

Work of the past year.—Pursuant to the directive of the full committee (S. Rept. No. 60, 84th Cong., 1st sess.), the subcommittee undertook an appraisal of the basic principles of foreign trade in relation to the position of the United States in the world economy. Public hearings considered a broad range of problems, including international costs and prices, multilateralism in trade, interaction between foreign and domestic commerce, domestic reactions to trade, international cooperation in trade, regionalism as an alternative to multilateral world trade, East-West trade policy, international investment and development, and economic policy alternatives.

The subcommittee during 12 sessions in November 1955 heard 40 witnesses drawn from academic, business, labor, farm, financial, Government, and research agencies. The report of the subcommittee, filed with the full committee December 30, 1955, was transmitted to the Congress January 5, 1956 (S. Rept. No. 1312, 84th Cong., 2d sess.). The specific recommendations of the subcommittee may be found in appendix A, pp. 110–112.

Plans for the coming year.—It is becoming clearer every day that the struggle against the spread of communism will be a long, drawn-out, economic contest. The Joint Committee in recent years has been alert to the economic trends and economic potentials of the United States. (See, for example, Potential Economic Growth of the United States During the Next Decade: Materials prepared for the Joint Committee on the Economic Report by the committee staff, joint committee print, 83d Cong., 2d sess.) A year ago it compared rates of economic growth between western powers and the Soviet bloc in Trends in Economic Growth (a study prepared for the Joint Committee on the Economic Report by the Legislative Reference Service of the Library of Congress, joint committee print, 83d Cong., 2d sess.).

During the past year, much has happened in the race to develop economic strength in the United States, Western Europe, the Soviet Union, Red China, and the so-called underdeveloped countries of the world. The Soviet Union has just announced its sixth 5-year plan.

There is considerable evidence that the Soviet Union has decided to challenge the United States, not only in developing new and powerful weapons and in building up heavy industry, but also in assisting those countries and territories which want to catch up economically.

The subcommittee, therefore, during the coming year will continue its studies of: (1) Current economic trends behind the Iron and Bamboo Curtains, in the free world, and in the uncommitted regions of the world; (2) the nature, extent, and actual performance of Communist efforts in providing economic assistance to underdeveloped areas; (3) where present trends may be leading us and the broad implications for our economic policy, particularly foreign aid and investment policies; and (4) the possible impact on the economy of marked reductions in armament expenditures, if such reductions become possible.

Subcommittee on Economic Stabilization

The Subcommittee on Economic Stabilization is composed of Representative Wright Patman, chairman; Senator Joseph C. O'Mahoney, Senator Arthur V. Watkins, Representative Augustine B. Kelley, and Representative Jesse P. Wolcott.

Work of the past year.—In accordance with the request of the full committee (S. Rept. No. 60, 84th Cong., 1st sess.), the subcommittee made an intensive study of automation and technological change. The subcommittee, at hearings covering 15 separate sessions in October 1955, heard over a score of witnesses closely associated with production—both management and labor—together with experts in the field of technology and economics. The inquiry covered six different industrial situations—metalworking, chemical, electronics, transportation, communications, and data processing and office work. These industries were selected as illustrative of the kind of problems which may be faced in the trend toward automation.

The report of the subcommittee, filed with the full committee on November 25, 1955, was transmitted to the Congress on January 5, 1956 (S. Rept. No. 1308, 84th Cong., 2d sess.). The specific recommendations may be found in appendix A, pp. 103–104.

Plans for the coming year.—The Employment Act of 1946 declares it to be the continuing policy and responsibility of the Federal Gov-

ernment "to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining" conditions which will promote maximum employment, production, and purchasing power. It is perhaps hard to evaluate the large variety of ways in which Government programs affect the operations of the economy and which, hence, might be useful if thoughtfully applied in advancing the goals of the Employment Act. There has been, thus far, however, no adequate, thoroughgoing attempt to list and analyze this "toolchest" of Government activities which might contribute to economic stabilization.

The subcommittee, aided by the committee staff, will accordingly undertake such a study, calling upon the various governmental executive agencies to supply information on programs regarded as potentially useful. Since a great many programs have a direct or indirect effect on the size of the labor force, consumption, savings, investment, and productivity, we think it desirable that the executive agencies, students of economic affairs, and the committee give thoughtful consideration now to the availability, effectiveness, occasions for, and desirability of employing these programs when conditions warrant.

Subcommittee on Low-Income Families

The Subcommittee on Low-Income Families is composed of Senator John Sparkman, chairman; Senator Ralph E. Flanders, and Representative Augustine B. Kelley.

Work of the past year.—The subcommittee renewed an earlier subcommittee's study of ways and means of improving the productive capacity and levels of living of low-income families (S. Rept. No. 60, 84th Cong., 1st sess.). The subcommittee published materials assembled by the staff, entitled "Characteristics of the Low-Income Population and Related Federal Programs" (Joint committee print, 84th Cong., 1st sess.). Open hearings were held in Washington during the period November 18–23, 1955. Testimony was received from over 60 Government officials, educators, economists, and other qualified witnesses on: (1) The role of the Federal Government in programs to aid the low-income population; (2) the function and economic value of income-security measures, public assistance, vocational rehabilitation, and health programs; (3) the role of education and training programs in improving the earning capacity of the individual, and in breaking the cycle of self-perpetuation within the low-income group; and (4) measures designed to reduce the number of rural and industrial areas with chronic labor surplus and underemployment.

The report of the subcommittee, filed with the full committee on December 28, 1955, was transmitted to the Congress on January 5, 1956 (S. Rept. No. 1311, 84th Cong., 2d sess.). The specific recommendations may be found in appendix A, pp. 108–110.

Plans for the coming year.—During this session of Congress, the subcommittee is directed by the full committee to follow legislation related to problems of low income and distressed economic areas. The subcommittee is authorized to determine a program of further study later in the session.

Subcommittee on Tax Policy

The Subcommittee on Tax Policy is composed of Representative Wilbur D. Mills, chairman; Senator Paul H. Douglas, Senator Joseph

C. O'Mahoney, Senator Barry Goldwater, and Representative Thomas B. Curtis.

Work of the past year.—Pursuant to the directive of the full committee (S. Rept. No. 60, 84th Cong., 1st sess.), the subcommittee focused its study on the relationship of tax policy to the attainment of the Employment Act objectives, with particular emphasis on maintaining a steady and sustainable rate of economic progress. The subcommittee recognized that other objectives of tax policy cannot be ignored in examining our revenue system.

A wide range of tax issues was explored in order to: (1) Formulate acceptable general criteria for evaluating tax policy from the standpoint of the growth and stability objectives of the Employment Act; and (2) outline a general tax policy designed to conform to the Nation's economic requirements for the coming years.

The study benefited from the generous assistance of 81 economists, accountants, lawyers, and other tax experts, who prepared papers on various aspects of the inquiry. These were printed for distribution to subcommittee members, participants, and the general public in mid-November in a joint committee print, Federal Tax Policy for Economic Growth and Stability (84th Cong., 1st sess.). At hearings during December 5–16 these participants and subcommittee members explored and developed the basic issues embraced by the study. The staff prepared materials to assist the subcommittee, and these were published in a joint committee print, The Federal Revenue System: Facts and Problems (84th Cong., 1st sess.).

The report of the subcommittee, filed with the full committee on December 27, 1955, was transmitted to the Congress on January 5, 1956 (S. Rept. No. 1310, 84th Cong., 2d sess.). The specific recommendations may be found in appendix A, pp. 105–108.

Plans for the coming year.—The subcommittee will continue its study of the effect of Federal tax policy on economic stability and growth. During this session of Congress it will follow developments in this important policy area. The subcommittee is authorized to undertake specific studies later as developments suggest. The committee staff may undertake analyses of the impact upon the general economy of certain features of the revenue system in conjunction with work on a tool chest of economic stabilization devices, to be prepared by the Subcommittee on Economic Stabilization.

Subcommittee on Economic Statistics

The Subcommittee on Economic Statistics is composed of Representative Richard Bolling, chairman; Senator John Sparkman, and Representative Henry O. Talle.

Work of the past year.—The subcommittee, in accordance with responsibilities assigned to it by the full committee (S. Rept. No. 60, 84th Cong., 1st sess.), worked this year in three major areas. When the year began, studies on statistics of inventories, savings, consumer expectations, plant and equipment expectations, and general business expectations were being conducted by task forces of distinguished consultants appointed by the Board of Governors of the Federal Reserve System pursuant to a request which this subcommittee made in its Progress Report of last year (H. Rept. No. 2628, 83d Cong., 2d sess.). These consultant committees reported to the subcommittee at public hearings held July 19 and 26 and October 4 and 5, in order

to review their findings and give opportunity for expression of views by the individual experts.

The subcommittee at hearings held November 7 and 8 also examined the development and adequacy of current programs in the field of employment and unemployment statistics with the heads of agencies charged with collecting and processing such statistics. Recent efforts to improve the quality of these data, and the need for additional data or improvements in techniques, were examined in light of the committee's use of such data.

During the year, the subcommittee, aided by the staff, also continued its review of the monthly publication Economic Indicators which was undertaken with the cooperation of the Council of Economic Advisers and the Bureau of the Budget. Beginning with the July 1955 issue, a new arrangement of charts and tables was presented. In cooperation with the Office of Statistical Standards of the Bureau of the Budget, the 1955 edition of the Historical and Descriptive Supplement to Economic Indicators was completed.

The subcommittee released on August 22 a summary statement, prepared by the Office of Statistical Standards of the Bureau of the Budget, on appropriations for the Government's statistical programs for the fiscal year 1956. This statement was based on the Special Analysis, Federal Economic Statistical Programs, included in the President's annual budget at the request of the subcommittee.

The subcommittee reported to the full committee November 30, 1955, and its report was transmitted to the Congress January 5, 1956 (S. Rept. No. 1309, 84th Cong., 2d sess.). The specific recommendations may be found in appendix A, pp. 104–105.

Plans for the coming year.—The subcommittee is directed to assist in obtaining favorable action on the 1957 budget for economic statistics and to report to the full committee the final actions of Congress on this budget.

The subcommittee will review (1) the report to be submitted by the Office of Statistical Standards of the Bureau of the Budget by the end of this fiscal year dealing with the progress made in implementing the recommendations of the five Federal Reserve consultant committees; and (2) the responses of the economic interest and research groups to the materials on labor force statistics presented to the subcommittee by the executive agencies last November.

Subcommittee hearings again have revealed that a principal use of economic data by private and public agencies is in preparing quantitative economic projections as an aid in policymaking. Improved economic projections can contribute to economic stability, and a survey of economic projections and methods for making them should be of great value. During 1956 the subcommittee will make a survey of methods used by Government agencies; for example: by the Treasury Department and the Bureau of the Budget in projecting Government revenues and expenditures; by the Department of Agriculture in preparing and disseminating outlook materials; by the Departments of Commerce and Labor in estimating the following year's construction activity; and by the Council of Economic Advisers in coordinating the assumptions basic to the formulation of consistent programs by the President.

Other committee work and plans for the coming year

Committee rules.—During 1955 a special Subcommittee on Rules, composed of Representative Richard Bolling, chairman, and Representative Thomas B. Curtis, prepared rules to govern committee procedures which the full committee reviewed and adopted. A joint committee print contains these rules together with the Employment Act of 1946, as amended, and related laws.

Committee publications.—During 1955 the Joint Committee on the Economic Report and its subcommittees issued 17 publications, after hearing some 250 witnesses and panel experts. Over 45,000 single copies were distributed to fill individual requests. Most of these publications are also available through the Superintendent of Documents. During the past year, individual sales and quantity orders of committee publications have exceeded $12,000. A list of the 1955 publications, together with prior committee reports, hearings, and studies, is given in appendix B, pp. 112–116.

Committee and staff participation in meetings with outside groups.—Representative Richard Bolling, chairman of the Subcommittees on Foreign Economic Policy and Economic Statistics, attended the Third World Congress on Political Science held by the International Political Science Association in Stockholm, August 21–27. Several members of the committee attended the 1955 meetings of the Interparliamentary Union in Helsinki. Representative Talle proposed at these meetings that the agenda of the Committee on Economic and Financial Matters of the Interparliamentary Union include an item for discussion of the need for the examination and improvement of statistics. His proposal was accepted and became the fourth point on the committee's agenda.

During the period June 23–July 4 the executive director served as United States delegate to the 29th Session of the International Statistical Institute at Rio de Janeiro and read a paper entitled "The Role of Government in the National Economy with Special Reference to Its Statistical, Financial, and Economic Implications." Going to and from Rio, the executive director made a brief survey of economic trends and problems in six South American countries: Venezuela, Brazil, Paraguay, Argentina, Chile, and Peru. His report was submitted to the committee August 31, 1955. (See hearings.)

In addition to conducting formal studies and arranging hearings for the committee, the staff participated in discussions of economic problems and research techniques with outside groups. This activity is illustrated by the following list of such meetings attended during 1955: Economic workshops and conferences at Stanford University, Goucher College, and the Universities of Pittsburgh, Tennessee, and West Virginia; the annual outlook sessions of the Department of Agriculture and the Association of Tax Administrators; school of banking conducted by the University of Wisconsin; investment banking seminar conducted by the University of Pennsylvania; annual sessions of the National Tax Association, the National Consumer Finance Association, the Society of the Plastics Industry, the American Economic Association, the American Statistical Association, and the Econometric Society; conferences on electronics and automation by the Stanford Research Institute, the National Industrial Conference Board, the University of Chicago, and the Congress of Indus-

trial Organizations; conferences on consumption and national income statistics sponsored by the National Bureau of Economic Research; meetings of the Pittsburgh Chapter of Robert Morris Associates, the Society of Industrial Packaging and Materials Handling Engineers, the Bankers Trust Co., the Chicago Chapter of the American Society of Corporation Secretaries, the Brookings Institution, and the Conference on Economic Growth of the Merrill Center for Economics; conferences of resources for the future; and other meetings of business groups, civic organizations, and university classes.

Committee study of prices, wages, and profits.—During coming weeks the full committee plans to study the relationships among prices, wages, and profits, seeking to ascertain whether current developments are making it increasingly difficult to maintain economic stability and growth.

Under our private enterprise system, market forces, which determine prices, wages, and profits, usually bring about adjustments favorable to stability and growth. Occasionally, however, maladjustments create instability, thus interfering with economic growth. At the present time the cost-price squeeze in agriculture, differences between rates of increases in productivity, wages, and prices, and differences between profit rates of large and small businesses raise the possibility that such maladjustments may be developing. The purpose of the committee study will be to obtain and analyze information permitting informed judgment by private and public policymakers. The study, therefore, will be objective, nonpartisan, and fair to all economic interests involved.

The staff, with the assistance of the executive agencies, is directed to prepare factual information for the committee. If preliminary study suggests that hearings would be fruitful, these will be arranged for purposes of receiving testimony from Government officials, representatives of the various economic interest and research groups, and individual professional economists.

Index of committee publications.—The committee staff is directed to explore the possibilities of preparing a revised index of committee publications. Since the first index was published January 2, 1953, some 12,000 pages of testimony and reports have been issued by the committee. Members of the committee, the staff, and outside users have commented on the desirability of bringing the index up to date.

Committee budget.—The Senate portion of the legislative budget for fiscal year 1957 includes a figure of $135,560 for the Joint Committee on the Economic Report. This amount is approximately $13,000 less than the sum authorized for the committee by the Employment Act of 1946, as amended, which is $125,000 plus the amount necessary to cover automatic pay increases granted legislative employees since the date of the authorization. This sum is also below anticipated expenditures for fiscal 1956. The extensive subcommittee studies undertaken during fiscal 1956 required several temporary additions to the committee staff. It is anticipated that the studies planned for fiscal 1957, however, will not require as much supplemental personnel; hence the committee is not requesting an appropriation as large as it needed for fiscal 1956. The figure of $135,560, however, represents a minimum, and the committee herewith authorizes and instructs the chairman and the vice chairman to so advise the Appropriations Committees.

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SUPPLEMENTAL VIEWS OF SENATORS DOUGLAS, SPARKMAN, FULBRIGHT[1] AND O'MAHONEY, AND REPRESENTATIVES PATMAN, BOLLING, MILLS, AND KELLEY

These supplemental views are offered to provide additional emphasis on some of the economic issues and challenges the Nation faces in 1956. Our comments are not intended to detract from the unanimity expressed in the committee's report.

In appraising the 1955 Economic Report of the President, we noted with gratification that it represented progress in economic understanding by the administration. Regretfully, we cannot express the same satisfaction with respect to the 1956 Economic Report. What might otherwise have been a scholarly and important contribution to economic understanding has been burdened throughout with strong political overtones which obscure the basic economic problems with which the Congress must deal in 1956.

THE ADMINISTRATION'S "PROGRAM"

The Economic Report of the President explicitly recognizes that the demands of modern life impose "a responsibility on the Government to pursue policies that will help to keep the private economy strong and growing." [2] The administration, it is claimed, "has sought, in cooperation with the Congress, to discharge its responsibility through a series of closely related policies." [2] Ten such policies are then listed. The Economic Report, the State of the Union message, and the Budget Message also set forth a wide range of programs proposed by the administration presumably in discharge of the Government's responsibility to contribute to the strength and growth of the private economy.

We note with approval and highly commend the policies listed. They were, in fact, first formulated and put into effect by previous administrations. We also endorse as at least a minimal approach many of the programs proposed for the coming years. A mere listing of programs and policies, while it may indicate recognition of what is required to promote the Nation's economic strength and development, offers no evidence of how these policies and programs have been carried out in the past or how vigorously they are to be pursued in the future. When we turn to the record, we find that in very large part the administration has served these policies with words but not with deeds. Similarly, upon close examination, the programs proposed in this year's messages offer little promise of real achievement.

We have attempted to determine the extent to which the administration has translated into effective plans the long list of proposals and programs so glowingly described in the President's messages this year. The basic test we have applied is whether sound budget provi-

[1] Senator FULBRIGHT. I do not endorse all of the comments and recommendations of my colleagues with respect to the soil bank and depressed areas programs. I wish to withhold judgment on these matters.

[2] January 1956 Economic Report of the President, p. 5.

sions have been made for putting these programs into effect in the near future.

The President's budget for the fiscal year 1957 calls for a $1.6 billion increase in expenditures in fiscal 1957 over fiscal 1956. Of this amount, $1 billion is to be devoted to major national security programs, leaving $600 million to cover all of the other increases in efforts required to improve the health and strength of the economy. Several of the programs described in the Economic Report would appear to require the expenditure of the full amount of this $600 million if only a good start were to be made in overcoming the economic problems to which they are addressed. We find, however, that certain prior claims on the $600 million must first be met. The principal of these is an expected increase of almost $200 million in the amount of interest to be paid on the public debt. Another $86 million represents the expected increase in expenditures for various veteran benefits. We are left, then, with about $300 million to finance the administration's "new and expanded programs for enhancing opportunities for human well-being and economic growth," [3] as well as some modest debt reduction.

We are brought up short, however, by discovering that we cannot even count on the availability of the $300 million since it presupposes that the Congress will provide a $350 million increase in postal revenues through rate increases. If we recognize the possibility that the Congress will not see fit to provide these increases, we are confronted with a budget deficit, which according to the fiscal principles stated in the President's Economic Report, rules out any increased outlays.

A partial resolution of this dilemma apparently is to be found in anticipated savings in certain current expense items for civil benefits. In the aggregate these savings are expected to net $345 million, resulting largely from substantial cutbacks in net expenditures by the Commodity Credit Corporation. These cutbacks reflect in part the assumption of greatly reduced outlays for direct agricultural price supports, which in turn depend on immediate and widespread effectiveness of the soil-bank program for reducing agricultural surpluses. In addition, these cutbacks assume the successful disposal of 2.8 million bales of surplus cotton.

When we turn to the specific recommendations in the President's Economic Report and attempt to find their counterpart in the Budget Message, we are closer to the answer to the question of how we are to finance the programs set forth. We find that many of the programs apparently require no expenditure of funds by the Federal Government, others are not to go into effect until after the end of fiscal 1957, while in the case of still others, the amounts to be spent are very minute. Perhaps the most telling example of the latter is the budget provision for accelerating work on practical flood-control projects. In face of the over $1 billion in property losses suffered in last year's New England floods alone, the administration proposes to increase outlays for flood control in 1957 by only $48.5 million.

We cannot, therefore, avoid the conclusion that the administration has failed to make even minimal provision for the many programs set forth in the President's messages. We strongly urge that the test of

[3] Budget Message, p. M7.

these programs is not the elegance of the language with which they are described but the actual effort that is to be put into their achievement.

AGRICULTURE

While we agree with the committee's conclusions as to the agricultural situation, as stated in point 8, we believe that other factors in the farm problem and proposed solutions should also be considered. The President's report duly notes that the agricultural sector of the economy has not participated in the economic recovery since 1954. The administration claims to have pursued an attack on the fundamental causes of weakness in the farm situation.

Chapter 3 of the President's report presents an analysis of the basic difficulties in the agricultural sector of the economy. It points out that—

> * * * the imbalance between farm output and its ultimate disposition * * * is to be traced largely to the technological revolution in American agriculture, changing domestic demands for farm products, the expansion of agricultural production abroad, and the repeated extension of wartime price support levels long after the end of World War II.[4]

While recognizing these basic contributing factors, the report fails to put them in their proper perspective. Instead, it overemphasizes the alleged stimulus to overproduction afforded by price supports.

This allegation is not supported by the facts presented in the report itself. In 1955, prices received by farmers fell from an index of 243 in January to 223 in December, as price supports for all crops except cotton, tobacco, and peanuts were reduced from 90 percent of parity. In addition, the transitional parity formula lowers effective price supports for corn and wheat even further. Despite—or perhaps because of—the reduced price supports, agricultural production rose from an index of 109 in 1954 to 112 in 1955, the greatest increase since 1952. We cannot understand how the President can claim in his Economic Report that price supports were responsible for the worsening of the agricultural situation in the past year, while explicitly referring to the fact that these supports were cut during the 2 years 1954 and 1955. The deepening difficulties of the farm sector of the economy in 1955 belie the assertion that the farm price-support program is a major contributing factor.

The assertion has been made that the problem of falling farm prices has been aggravated by increases in prices paid by farmers, both for family living and for production. Thus, the President's Economic Report claims that farmers have been subjected to a "cost-price squeeze." We believe that every effort must be made to hold down the production and living costs of farm families. Actually the index of prices paid by farmers showed a slight decline in 1955. The squeeze results from the severe decline in prices received by farmers for their products. The decrease in the index of prices paid by farmers is, of course, reflected in the parity index and, therefore, serves to emphasize the severity of the drop in the parity ratio.

This leaves us, therefore, with the conclusion that the rapid rise in farm productivity, the changing usage as well as inelastic demand for farm products, and the expansion of agricultural production abroad are, in fact, the basic sources of difficulty in the farm economy.

[4] January 1956 Economic Report of the President, p. 54.

How successfully has the administration attacked these fundamental difficulties? The record is clear. In 1955:

Income of the farm population from all sources fell $1 billion, reaching the lowest level since 1945.[5]

Gross income of farm operators from farming fell $1.2 billion and net income declined by $1.4 billion.[5]

Farm wages fell $46 million.[5]

Total income from agricultural sources declined by $1.4 billion.[5]

Per capita income of the farm population fell from $913 in 1954 to $856 in 1955, the lowest level since 1950.[5]

The index of all farm prices received by farmers fell from 249 in 1954 to 237 in 1955; at the end of 1955 the index stood at 223.[6]

The parity ratio has declined steadily, from 100 in 1952 to 84 in 1955; at the end of 1955, it stood at 80, a 6-point decline since December 1954.[6]

The index of feed grain prices fell 16 percent.[7]

Prices of oil crops declined 17 percent.[7]

Meat prices dropped 21 percent with hog prices falling by 38 percent.[7]

Farm real-estate debt went up 10 percent.[8]

Farm real-estate taxes rose by 5 percent.[9]

Farm interest payments increased by 8 percent.[9]

These data demonstrate that the administration's so-called attack on fundamental weaknesses in the farm economy has, in fact, operated against the farmer. The lack of an appropriate concern by top Cabinet officers for the distressed situation of agriculture is exemplified by the attitude of Secretary of the Treasury Humphrey. He stated that he regarded the fall in farm prices as "undesirable" but "not alarming." [10]

The administration has evidently realized that its "program" of the last 3 years cannot fulfill the political requirements of an election year. The Nation, therefore, has been offered a "new" program by the President and the Secretary of Agriculture under the imposing name of the "soil bank program."

While there are certain commendable features, we must also recognize certain undesirable features of the program. Its conservation features appear to depend on nonuse of resources now committed to agriculture without adequate provisions for shifting these resources to more productive and valuable employments over time. Thus, the program is regarded by some as a program of scarcity, which another party indignantly condemned in the past. In this respect, Mr. Murray Lincoln, president of the Cooperative League of the United States of America, said:

> Now we plan not to use our resources. That is what we did when we killed the little pigs and plowed up cotton and wheat. That is what is now planned in the soil bank which adds up to not using our acres. To live realistically with plenty takes an opposite course. That course would guide us toward plans under which we would use all our resources intelligently, with the goal of satisfying all the real needs and desires of our people—everywhere (Hearings, p. 347).

[5] Ibid., table D-16, p. 181.
[6] Ibid., table D-39, p. 209.
[7] Ibid., p. 129.
[8] Ibid., p. 134.
[9] Ibid., p. 132.
[10] Hearings on the January 1956 Economic Report of the President, before the Joint Committee on the Economic Report, 84th Cong., 2d sess., (hereinafter cited "Hearings"), p. 189.

We must regard skeptically a program which devolves on the nonuse of resources, while there are millions within the Nation and many millions more abroad who live on insufficient diets.

[Representative Patman adds the following: Full utilization of resources is important, but it should be emphasized that the resource we are mainly concerned about is people, and we are looking for ways to have resources effectively used, and not misused. The most urgent need is for an expansion of industry and trade, not only to provide attractive jobs for children now growing up on the farm, but to produce more of the goods and services which are relatively scarce and high-priced. The bottleneck to better resource use lies in the fact that industrial expansion—particularly in the big business industries—has not kept pace with the profits and profit opportunities in those industries. There is no clear evidence that farm price supports stimulate increased farm output; on the contrary, it seems equally clear that when farm prices are low, farmers are forced to produce and sell more, in order to make a living. If it is true, however, that price supports result in increased output, then it will be necessary to assist farmers with programs for avoiding overproduction. Since such large segments of industry are able, by private means, to set prices and restrict production, thereby denying jobs and frustrating adjustments in resource use which more competition would bring about, then it is only just that farmers be allowed price and production controls under public auspices, which protect the interests of all groups.]

We seriously question whether the soil bank program is the whole answer, and whether its benefit payments will not actually go in great part to the big farmers. In 1953, about 2 percent of farmers received 25 percent of benefit payments, 7 percent received another 25 percent, and 91 percent of all American farmers received only 50 percent of payments.[11] The same may well be true under the soil bank plan. Developments should be watched carefully. The big farmer has the acres and the financial resources which will permit him to participate; the small, hard-pressed farmer must keep producing to make ends meet.

It seems to us that the soil bank program is not tailored to the needs of the family farmer. It is true that in his farm message the President asked Congress to consider placing a limitation on price support payments to any one farm unit (Congressional Record, January 9, 1956, 84th Cong., 2d sess., p. 275); but no recommendation was made as to the soil bank payments.

SMALL BUSINESS

The President's report explicitly notes the importance of small and new businesses in maintaining a dynamic and progressive enterprise economy. It calls attention to the fact that a high rate of new business formation and growth opportunities for small- and medium-sized businesses are essential to healthy economic growth. Moreover, the report makes several specific recommendations for strengthening the antitrust laws. We applaud these recommendations, although there is considerable question whether they are strong enough for the prob-

[11] Hearings, p. 359.

lems with which they deal. On the other hand, the President's report overstates the economic health of small business, and accordingly fails to come to grips with one of the most disturbing trends in the current economic scene.

As the population grows, and business activity expands, it is normally expected that there will be an expansion of business opportunity and a growth in the number of business firms. While noting the importance of new businesses to a free enterprise economy, the President's report fails to take note of the fact that the number of firms in operation has remained remarkably stable in the last several years. Between June 1954 and June 1955, the number of operating firms increased from 4,196,700 to 4,225,000, or an increase of only 28,300 from "recession" to "boom." This record may be compared to an average annual increase of 55,000 firms in operation between 1948 and 1952.[12]

The high business failure rate in 1955 canceled a large part of the increase in business population resulting from new business starts. Dun & Bradstreet, Inc., reported 10,969 business failures last year, as compared to 11,086 in the 1954 recession year, and 7,611 in 1952. While Dun & Bradstreet, Inc., does not report all business failures, but only failures among firms carried in its listings, its reports indicate that the rate was 45 percent greater in 1955 than in 1952.

Corporate profits after taxes last year, taking all corporations together, were second highest only to 1950. As both the Senate and House Small Business Committees have pointed out, however, profit ratios of large and small corporations—in the manufacturing fields at least—were widely divergent.[13]

Comparative profit rates for large and small manufacturing corporations show that in 1952 profit rates—after taxes—were not greatly different between the largest and smallest size classes. In the first 9 months of 1952, corporations with less than $250,000 of assets had profits after taxes equal to an annual rate of 11.4 percent of the stockholders' equity. Similarly, those corporations with more than $100 million of assets had a profit rate of 11.1 percent. By comparison, in the first 9 months of 1955 the profit rate of the smallest group had dropped by 39 percent, while the profit rate of the largest group had increased by 27 percent.

	Annual rates of profits after taxes in the 1st 9 months of—		
	1952	1955	Percent change
Corporations with assets of—			
Under $250,000	11.4	6.4	−39
$100 million and over	11.1	14.1	+27

Source: FTC-SEC Quarterly Financial Report for Manufacturing Corporations, 1st, 2d, 3d quarters, 1955.

Small business profits in the third quarter of last year were much improved over the earlier 6 months of the year and over the comparable period of 1954. Even in the latest period, however, small

[12] January 1956 Economic Report of the President, p. 231.
[13] cf. Sixth Annual Report of the Senate Select Committee on Small Business and the Chairman's report on the Activities of the House Select Committee on Small Business in the 84th Congress, 1st Session, Congressional Record of August 25, 1955.

business recovery was substantially less than the gains made by the larger corporations.

Aggregate profits after taxes of corporations in the under $250,000 asset class in the third quarter of 1955 were 24 percent above the profits of firms in this class in the third quarter of 1954. In contrast, aggregate profits after taxes of firms with more than $100 million in assets in the third quarter of 1955 were 38 percent over aggregate profits of such firms in the third quarter of 1954.

Turning now to sales volumes, for which quarterly data are inherently more reliable than for profits, the smallest manufacturing corporations reported an increase of only 3 percent between the third quarter of 1954 and the third quarter of last year, while the corresponding increase for the largest corporations was 19 percent.

The year 1955 also witnessed a sharp rise in business mergers. The Senate Small Business Committee's Sixth Annual Report observes (p. 12) that—

> Conservative estimates place the probable number of mergers in manufacturing and mining during 1955 somewhat in excess of 500 * * * the largest total since 1930 * * *. In banking, some 240 to 250 mergers and acquisitions shall have been consummated during 1955 * * * compared with 207 mergers in 1954, 116 in 1953, and 119 in 1952.

More recent data from the Comptroller of the Currency show nearly 300 bank mergers in 1955.

Production for national defense continues to account for a substantial portion of the Nation's total business. The Department of Defense awarded domestic contracts to private firms last year amounting to $15.6 billion.[14] It is manifest that an uneven distribution of these contracts will have a serious impact upon the competitive structure of business. Yet the evidence is indisputable that the Department of Defense is persistently placing the lion's share of these contracts with a few giant corporations.

According to a recent report of the Senate Armed Services Committee, Department of Defense tabulations show that in the period June 1950 through June 1953, 63.6 percent of the value of all defense contracts was awarded to the 100 largest defense contractors.[15] In more recent periods, this concentration of defense business has become even more alarming. The same committee report sets out Department of Defense tabulations which indicate that in the subsequent year and a half—July 1953 through December 1954—68.8 percent of the net value of all the defense contracts was awarded to the 100 largest defense contractors.

The Senate Small Business Committee reported that—

> While the net value of defense spending increased $3 billion from fiscal 1954 to fiscal 1955, the small-business man received only 10 percent of that increase.[16]

The "small business" total of Department of Defense contracts decreased from 25.1 percent in fiscal 1954 to 21.8 percent in fiscal 1955.[17]

Small business has a vital stake in the methods used for placing Government contracts. It has long been national policy, reiterated in the Armed Services Procurement Act of 1947, that Federal contracts

[14] Military prime contracts, reports by Assistant Secretary of Defense for Supply and Logistics: February 15, 1955; October 4, 1955; March 8, 1954.
[15] Second Report of the Preparedness Subcommittee of the Committee on the Armed Services, United States Senate, under authority S. Res. 72, 84th Cong., committee print, p. 8.
[16] Sixth Annual Report of the Select Committee on Small Business, U. S. Senate, S. Rept. 1368, 84th Cong., 2d sess., p. 25.
[17] Ibid., p. 25.

shall be awarded by advertised competitive bid, although the present law sets out authority for placing contracts by negotiation in certain exceptional circumstances. The House Armed Services Committee has recently reported that in the 2½ years ended June 30, 1955, only 6 percent of the value of Department of Defense contracts was placed in accordance with the affirmative policy of the law, and that 94 percent was negotiated under the exceptions provided in the law.[18] A report of the House Small Business Committee commented on this matter last year as follows:

> Emergency conditions have too long been used as an excuse for denying an adequate share of Government contracts to small business. Emergency limitations affecting other segments of our economy have been lifted. Small business could and should now be given the green or amber light in Department of Defense procurement policies.[19]

We approve the objectives of the bill H. R. 8710 recently passed by the House, which would amend the Armed Services Procurement Act of 1947 to limit the authority for negotiating contracts.

The Small Business Administration, which is charged with primary responsibility for seeing that a "fair proportion" of Government contracts is placed with small business, appears to have accomplished little in this respect. Its efforts to place military contracts have consisted largely of a joint determination program, whereby the SBA representatives and military procurement officers jointly agree to earmark specific contracts for competition exclusively among firms with 500 or less employees. The House Small Business Committee has reported that in the period August 1953 through March 1955 the contracts so earmarked amounted to 1 percent of the total value of military contracts awarded in the period; that the contracts awarded to small business without earmarking in that period amounted to 14 percent of the total; and that firms with less than 500 employees normally account for about 42 percent of all manufacturing in the United States.[20]

The handling of contracts for industrial research and development by the Department of Defense is even more disturbing than the Department's allocation of production contracts. A report of the House Small Business Committee last year pointed out that—

> The military services have handed out billions of dollars for research and development and are currently awarding between 1 and 1.5 billion dollars a year in research and development contracts. Private firms are using these funds for developing new products and production processes, and the usual condition of the contract is that the private firm so engaged may receive patents on the products and processes invented. Such firms obviously may thus forge ahead in the technological race, and the distribution of these funds has, therefore, a vital effect upon competitive relationships. Most of the research and development contracts have gone and are going to the big firms of the Nation.[21]

The Small Business Act (Public Law 163, 83d Cong.) was revised last August to require the Department of Defense to make reports to Congress showing the value of research and development contracts awarded after June 30, 1955, separately from data on other types of contracts, and showing the value of such contracts placed with small

[18] Cf. report to accompany H. R. 8710, Committee on Armed Services, House of Representatives, 84th Cong., 2d sess., Rept. 1688, p. 3.
[19] Cf. Report of the Subcommittee on Government Procurement, Disposal, and Loan Activities to the Select Committee on Small Business, House of Representatives, July 1955, 84th Cong., 1st sess., H. Rept. 1045, p. 22.
[20] House Select Committee on Small Business, op. cit., p. A6256.
[21] Ibid., pp. 21-22.

business. These reports reveal the remarkable fact that during the last half of 1955, $862.3 million in research and development contracts were awarded, of which only 5.1 percent went to firms having 500 employees or less.[22]

A major problem of small business is financing. As the report of the House Small Business Committee has pointed out—

> The type of capital which small firms find most difficult to acquire is long-term capital for continuing business operations and for expanding fixed assets, not short-term capital for meeting seasonal or temporary emergencies. The fact that existing financial institutions have been unable to provide an adequate flow of such capital to small business is undisputed. This matter has been a serious point of discussion and congressional attention for a decade.[23]

The RFC long served to meet a substantial portion of small business requirements for financing services. Justification for a continuation of these services was recognized, moreover, during the 83d Congress, when the RFC was abolished. The same action which abolished RFC (Public Law 163, 83d Cong.) retained a Federal loan service for small business, and transferred this service to the Small Business Administration. It appears however, that the SBA has been most niggardly in such services to small business. The House Small Business Committee points out that by the definitions of "small business" under which SBA has operated its loan program, there are at least 3½ million business firms "accounting for somewhere between one-third and one-half of the nonagricultural business done in the Nation." This report further states however, that—

> On the basis of SBA's records submitted to this committee, it is estimated that SBA has received inquiries concerning loans at the rate of about 11,000 per month. In 21 months of SBA operations, only 5,085 of these inquiries successfully passed SBA's screening operations and eventuated in formal applications. SBA has authorized 1,141 of these loan applications. Of some 395 direct loans authorized —committing $17.5 million of SBA funds—disbursements had been made on only 276, for a total of only $11.9 million. SBA's total disbursements on all business loans in 21 months was $19.1 million, of which $2.5 million of principal had been repaid.[24]

Finally, the relative insignificance of SBA's small-business lending activity has been summarized as follows:

> Compared to the rate at which total business debt increases from year to year, and to the financing requirements of small firms, SBA's lending has been less than significant. Compared with growth of industry, 1953 and 1954, SBA's loans over the past 2 years amounts to about $1 out of every $1,700 of business investment in new plant and equipment, and amounted to less than one-half of 1 percent of the expansion in business debt during these years.[25]

We reiterate the concern of the Senate Small Business Committee that—

> " * * * there is an ominous significance in an economic atmosphere which makes it possible for the Nation's mammoth corporations to reap record profits while the general run of small enterprises are worse off than they were 3 years ago." [26]

Few other national economic policies are so important as those which call for determined and vigorous efforts to improve the position of small and new businesses and thereby promote the competitive char-

[22] Monthly reports, Secretary of Defense, to Senate and House.
[23] Report of the Subcommittee on Government Procurement, Disposal, and Loan Activities to the Select Committee on Small Business, House of Representatives, 84th Cong., 1st sess., H. Rept. 1045, July 1955, p. 16.
[24] Ibid., p. 16.
[25] Ibid., p. 16.
[26] Op. cit., Senate Small Business Committee report, p. 25.

acter of our private enterprise system. It is evident that the administration's endeavors in this respect have been inadequate to the job of effectively carrying out this policy.

THE COLD WAR INTENSIFIED

The committee's report, point 4, properly points out that the cold war has settled into a "long-drawn-out contest of economic strength."

For the second consecutive year, the President's report fails to give adequate attention to the implications of international developments for our domestic economy. In our 1955 report, the majority of this committee recommended that more concern be shown in the President's report for the economic implications of the cold war. That recommendation has been disregarded.

We know that the cold war, following the developments at the summit meeting of last July, has been intensified and has entered a new phase. Actions of the Soviet leaders show that they are preparing a long and drawn out economic and political campaign to divide the free world and to attract to the Communist sphere the uncommitted nations of the world. Although we cannot relax our guard against the possibility of military flareups, we must now recognize that a greater economic and political emphasis has been added to the military aspect of the cold war. The implications of this development for our economic situation should be carefully explored, since it will certainly become basic to our foreign and domestic policies.

We regret that the Economic Report, as submitted to Congress, sheds no light on these situations so vital to our economy. It is devoid of all but the most generalized observations about national defense. It gives virtually no guidance for any possible eventualities.

To ignore these problems and to disregard an international situation that has become most threatening is not meeting the administration's responsibility for providing Congress with adequate information with respect to the economic outlook.

NATIONAL SECURITY AND CIVILIAN PROGRAMS OF THE FEDERAL GOVERNMENT

We readily confess our inability to understand the magic by which we can restrict public expenditures yet build up the Nation's defense and our stock of basic public assets, as claimed in the President's Economic Report. We have heard repeatedly in the past months from those whose judgment has been proved sound that our defense preparedness is lagging seriously behind that of the Soviet Union. Perhaps the best current example is the rapid advance of the Soviets in the development of intercontinental ballistic missiles while the Defense Department refuses to undertake an all-out program for the development of this type of weapon.

To a significant extent, our defense preparedness appears to have been limited by considerations of "economy" and by basing decisions as to requirements on what we have done so far rather than on what other nations are now accomplishing. We are not critical of efforts to obtain the greatest efficiency in our military spending and applaud efforts to provide greater strength at lower cost. The American economy, however, can support a substantially greater defense effort if needed.

SCHOOLS, HIGHWAYS, MEDICAL FACILITIES

The committee has concluded in point 5 that the Nation has the economic capacity to meet the national-security requirements and to take up those economic and social programs which are needed.

The President's Economic Report explicitly admits that the administration's policy of restricting expenditures for schools, highways, and medical facilities has involved sacrificing these valuable public assets. It states that—

> Provision for schools, highways, and medical facilities must be substantially increased. Action in these vital areas has lagged sadly behind our accumulating needs. If economic growth is not to be seriously retarded in the future, we must—with due regard to the need for staying within the limits of Federal revenues—strive to make up for the neglects of the past.[27]

We find it difficult to follow the reasoning which leads the President to commend to the Nation a policy of restricting expenditures for these purposes and simultaneously to admonish that we must increase these expenditures if economic growth is not to be seriously retarded. We concur heartily in the latter recommendation. The committee has properly concluded (point 5) that the important thing is that we agree to move ahead "rapidly and simultaneously on varied fronts." This is sound policy.

We do not understand the implications of the President's phrase "—with due regard to the need for staying within the limits of Federal revenues—." It seems to us that having determined the level of expenditures required to "make up for the neglects of the past," we should not hesitate to make adequate financial provisions to carry them out with due regard to the need for contributing to the Nation's economic stability.

With this principle in mind, we are concerned with the programs that have been proposed by the President to meet the backlog of our needs. The school construction program, for example, calls for new spending of $150 million in fiscal 1957 under a general aid program to States and their subdivisions for the construction of additional classrooms. We do not regard this level of expenditure as adequate to meet the backlog of school construction needs. Moreover, it will not free enough local funds to enable local authorities to attract more and better qualified people into teaching.

We also want to emphasize that recent and continuing technological changes in industry bring with them the need for significantly higher levels of educational achievement and alertness to changing educational requirements. This was carefully and extensively explored in the hearings on automation by the Subcommittee on Economic Stabilization, conducted by the vice chairman of this committee, Congressman Wright Patman (S. Rept. 1308, 84th Cong., 2d sess.). If we are to benefit fully from the increases in productivity and consequent opportunities for leisure, it is important that our cultural advances keep pace with our material progress.

It is also important to note that the present critical shortage of scientifically trained personnel is directly traceable to the neglect of our educational facilities in years past. This shortage is a serious bottleneck, not only in our industrial advance but also in our military preparedness programs.

[27] January 1956 Economic Report of the President, p. 12.

The President calls attention to the need for a concerted attack on the clogging of the Nation's highway system. The administration, however, has refused to take the leadership in proposing a sound plan for financing highway construction.

In the area of promotion of public health, the President's legislative program calls for additional expenditures for the fiscal year 1957 of $44 million. Increased outlays under existing legislation in 1957 would amount to $21 million. While such increases are commendable, these programs should be judged not by reference to what we have done before, but what is required if we are to raise the Nation's health standards. The evidence of recent years as to the tremendous advances that can be made if adequate resources are vigorously applied to major health problems suggests that a very substantial increase in outlays would represent the soundest type of public investment.

UNEMPLOYMENT, OLD AGE, ILLNESS, AND BLIGHTED NEIGHBORHOODS

The President's Economic Report notes that advances have been made in "tempering the impact of unemployment, old age, illness, and blighted neighborhoods on people * * *." We are gratified to observe the administration's apparent willingness to carry forward the policies in these areas which were developed and put into effect by previous administrations. The problems in this area are among the most compelling we face. Not only do they affect the basic social strength of our free society, they also demand solution if we are to realize our full economic potential. As stated in point 17 of the committee's findings, most of the proposals offered for consideration of the Congress represent "a minimum program which in some respects does not go far enough."

While advances have been made in these areas, a great deal remains to be done. Most of the limited progress in the last year has come from the States. The most important measures required to strengthen our system of unemployment insurance are yet to be taken. Both the amount and duration of benefits must be increased if the system is to contribute satisfactorily to meeting human needs of our highly advanced industrial economy. We regret that the administration has not strongly recommended these advances, the need for which was clearly expressed in the bills offered by the chairman of this committee and others in 1954.

Although our Social Security system has been strengthened, the need for further improvement transcends the modest recommendations offered by the President in his Economic Report. Extension of coverage, of course, is a worthwhile objective of policy in this area, but we should not neglect other important problems yet to be solved, such as adjustments to reflect major differences in retirement patterns between men and women in the working force, the need for more liberal disability provisions, and liberalization of the benefit formula as applied to farmers.

We regret that we cannot find evidence of progress in dealing with the personal problems attendant upon serious illnesses. This is one of the most challenging areas of public policy in view of the magnitude of the needs and the requirement that public policy not reduce the effectiveness of existing medical-care arrangements.

The administration's recommendations with respect to public housing are inadequate. The administration does not comprehend the economic potential in a satisfactory program of public housing and slum clearance. Such programs reduce the costs of State and local government police and health protection efforts. They are needed to restore the eroding tax bases of local communities. The impact of adequate programs on the private business sector of the economy is potentially tremendous. One necessary prerequisite to rising living standards, which in turn provide a basic generating force for expansion of domestic markets, is improvement in housing accommodations. We need only to review the impact of the growth of private residential construction on the level of demand for a huge assortment of consumer durables, and nondurables as well, to appreciate the potential that lies untapped in a sound public housing program.

The late Senator Robert A. Taft, who helped draft the basic housing legislation, advocated 135,000 units per year as a reasonable figure. The administration's current proposal is barely one-quarter of that number. The program unnecessarily requires a municipal slum-clearance program to qualify for Federal funds for public housing. It has been estimated that this restriction alone would disqualify some 600 cities. Moreover, it reflects a mistaken notion of the course of events which must be followed if adequate housing is to be afforded the low-income population and if slums are to be cleared. It is notable that the most successful private ventures for neighborhood improvement have tackled the problem by first providing improved housing for inhabitants of the slums it was proposed to clear.

We are happy to note that the President's report recognizes the problems of employment opportunities for elderly workers. Medical developments in recent years have shown us unmistakably that older people can continue to work beyond "normal" retirement ages. Increasing life spans and better health at all ages, in extending the employability of workers, offer us one of the most important potential increases in productive resources. The challenge is to overcome outmoded prejudices toward older workers and to make use of their productivity, thereby increasing our economic potential. Public policy should be prepared to move vigorously to meet this challenge.

DEPRESSED AREAS

One year ago this committee pointed out that there existed a considerable number of distressed industries and localities. We urged then that the administration take prompt and remedial action through area development programs, public works, and other measures. Several months later the administration undertook a study of this problem. On July 28, 1955, the chairman of this committee with other Senators introduced legislation to establish a rounded program to assist such areas and their distressed industries.

Hearings on this legislation were begun in a subcommittee of the Senate Committee on Labor and Public Welfare on January 4, under the direction of Senator Douglas. Numerous field hearings have been held. Requests have been received from more than a dozen States to present evidence relating to economically depressed areas within their borders.

As noted in the committee's views, point 10, the administration's recognition of this problem should remove any doubt as to the need for a comprehensive program to assist such areas. The majority members of this committee regret that it has taken so long to stir this administration to any action regarding this pressing economic problem.

On October 15, 1955, this committee's Subcommittee on Low-Income Families also rendered a comprehensive report under the direction of Senator Sparkman. That report states:

> Of the 145 major labor market areas in continental United States, 23 were classified by the Bureau of Employment Security as having a substantial labor surplus in September 1955. In addition, 94 smaller areas had a substantial labor surplus—i. e., 6 percent or more of the total labor force was unemployed and this level of unemployment was expected to continue over the next 4 months * * *.
>
> A paradox of modern economic society is the continuing existence, during periods of full employment, of geographic pockets in which chronic unemployment and underemployment are excessively high. These depressed economic areas, both urban and rural, contain a significant proportion of the low-income population; moreover, it appears likely that as time passes they will contain relatively more of the low-income group, unless positive action is taken to restore such areas to higher levels of economic activity * * *. A comprehensive unified program which takes into account all the various types of remedial action necessary in the particular situation is still needed. (Characteristics of the Low-Income Population and Related Federal Programs, Joint Committee Print, 84th Cong., 1st sess., p. 3.)

The administration now proposes an Area Assistance Administration within the Department of Commerce. It is proposed to establish a loan fund of $50 million to assist communities, and to provide an "adequate appropriation" for technical services. The administration also advocates that the Federal loan be restricted to 25 percent of the cost of any project, the State or local community sharing at least 15 percent, and the balance from other sources.

We submit that this is not an adequate program; as the chairman of this committee said, "It is disastrously inadequate."

NATURAL RESOURCES

The majority of this committee is deeply concerned with the administration's attitude toward development, utilization, and conservation of our great resources—human and material.

It is crucial that we make the most of the resources we now have, as the committee has observed in point 4. We must also develop those resources which are potentially ours, and expand and accelerate our development of new resources and substitutes for those we now use. The development and efficient utilization of our resources is the key to an expanding economy, to future stability, and to national strength.

Today, the United States has passed from a "have" to a "have not" nation in the matter of raw materials. We are running out of iron ore, copper, oil, lead, bauxite, and many other vital materials. The Paley Commission on Natural Resources reported that this Nation is critically short of 44 strategic and critical materials.

The need for effective flood control and water conservation programs was dramatically illustrated by the 1955 New England floods and this year's floods in California and Oregon. Property losses were more than $1 billion in New England and $100 million in California.

By 1975 the industrial and home demands for water will be doubled. Vast areas of California, Texas, the Middle West, and portions of the East face the limit of their industrial and urban growth unless new supplies of water are provided. In 15 years the problem will be acute. China, India, and Soviet Russia have undertaken mammoth flood control, conservation, irrigation, and hydroelectric programs, and are pushing them with all possible speed.

The United States, however, ranks third in per capita development of electric power, behind Canada and Norway, although it is the greatest industrial nation in the world.

The United States' daily consumption of crude oil has risen from a wartime peak of 6.2 million barrels in 1945 to 8.7 million barrels this year. In 1955 we increased our oil imports 18 percent and as we place more automobiles and trucks, tractors, and other power equipment into service in the future the drain on our oil resources will continue to increase.

The United States has never met its timber requirements on a sustained yield basis.

In the face of our resource needs, we find:

Our stockpiling of critical and strategic minerals is being halved.[28]

The Paley Commission report was received, filed, and so far as we can determine, forgotten.

In spite of the enormous flood damages we have sustained, the administration proposes to spend only $20 million in New England next year, and a total of only $157 million for all flood-control projects in 1957.

The policy in relation to water resources is disastrously inadequate over the long term. Our policy now seems to be to pray for rain in the drought areas, and to rebuild the damage and pray for drought in the flood-devastated regions of the country.

The Benson-McKay-Wilson committee report to the President on water-resources policy represents a retreat from Federal responsibility for the development and conservation of water resources. It would reverse policies which have been evolved through a series of Federal laws since 1906. The approach recommended in this report would split up the various water resource development programs, assign bits and pieces to a multiplicity of private groups and public agencies, and would inevitably result in less flood control, less navigation, less power development. It would establish a basis for challenging the Federal Government's rights with respect to water resources projects. It would junk completely the river basin development concept which experts agree is the only sound and economical approach to water problems.

There is no program to meet the need for a rapidly expanding supply of water for industrial and residential uses.

Reclamation projects have been sorely restricted, the Tennessee Valley Authority given the "shock treatment," and great public reclamation projects reduced or consigned to private interests.

In regard to synthetic fuels to supplement our dwindling supply of petroleum, the administration closed out the Louisiana, Mo., plant experiment for production of oil from coal, and the Rifle, Colo.,

[28] Budget Message of the President, p. M30.

plant experiment for production of oil from shale. Both of these experiments offered great promise, and in the case of shale production the cost of producing a gallon of oil had been brought to within a fraction of the cost of producing regular petroleum.

Secretary McKay stated that added demands are being created for the development and use of public lands and their resources. He said:

> Individuals and corporations want to use and acquire public lands for grazing, logging, mining, farming, industry, commerce, residence, recreation, and other purposes.[25]

Other congressional committees have concerned themselves with the rapacious scalping of our timberlands under mineral leases granted by this administration. We regard such acts as indefensible. We have hitherto suggested that the Government could give impetus to its soil-bank program by withdrawing these lands from exploitation. There is no apparent concert of programs between the Departments of Agriculture and Interior for land and timber use. The present policy is apparently to turn over vast resources of timber for private logging operations.

The majority members of this committee have supported foreign-aid programs. We believe this is a sound investment in national security. We approve the building of the Aswan Dam on the Nile in Egypt at a cost of $1.3 billion, and the proposed TVA development of the River Jordan. We wish the administration would show equal concern for domestic projects for water conservation, flood control, and power development. It seems to us utterly illogical to undermine our domestic programs while promoting such projects abroad. Sound policy calls for progress in both fields.

The Economic Report states that:

> Today, we believe as strongly in economic progress through free and competitive enterprise as our fathers did, and we resent as they did any unnecessary intrusion of Government into private affairs.[26]

Secretary McKay also stressed the Government's "partnership policy" in the development and use of resources. We believe in free and competitive enterprise as strongly as the administration. But we fear that the first statement is something of a platform of inaction; the second a springboard for the parceling out of great resources to unbridled exploitation without regard to the national interest. We do not believe that development or conservation of our national resources would constitute "intrusion of Government into private affairs." It was not so regarded in the time of Theodore Roosevelt, Gifford Pinchot, Charles McNary, George Norris, and other distinguished Republicans. It is apparent that this administration has undertaken, under a variety of slogans, a negation of the historical and continuing resources policy that began with Alexander Hamilton.

PRICE MOVEMENTS

The President's Economic Report makes repeated reference to stability in the general price level during 1955. This stability is noted as a major achievement by the administration. We concur in regarding

[25] Hearings, p. 544.
[26] January 1956 Economic Report of the President, p. 10.

general price stability as an important objective of public policy. The economy has experienced general price stability since March 1951.

Turning to the statistical record, however, we find that the stability of consumer prices in 1955 does not reflect the widely divergent and alarming price movements at the wholesale level and in major components of the consumer price index. Tables D–36 and D–37 in the President's Economic Report show that while the index of farm and farm-related products and processed foods declined markedly, the index of "all other commodities" rose just as noticeably. Moreover, the increase in many basic industrial product prices, particularly metals and metal products, machinery and motive products, rubber, pulp and paper, and allied products, was exceedingly rapid. It is apparent that had agricultural prices remained somewhat firmer during 1955, we would have experienced a considerable inflation during the year.

The importance of this sharp rise in industrial prices is evidently not appreciated by the President's economic advisers. The committee staff has, however, pointed out that we may expect these increases at the wholesale level soon to appear in retail prices. It has also called attention to the danger that such price increases may induce excessive inventory accumulations.

While industrial prices have been advancing, farm prices, as we have already noted, have been falling at an alarming rate. Accordingly, the "general price stability" in which the administration takes so much pride, is properly viewed as the result of a serious dislocation in the economy's overall price structure. Price stability at the expense of the deepening distress of the agricultural sector of the economy is hardly an accomplishment to be proud of.

FISCAL POLICY

The President's Economic Report claims that among the policies the administration has sought to pursue are those of—

> * * * lightening the burden of taxes imposed on individuals and businesses * * * extending the automatic workings of our fiscal system that tend to offset or cushion changes in income arising from changes in economic activity * * * and * * * acting promptly and resolutely when either recessionary or inflationary influences in the general economy became evident.[31]

Since the administration took office, tax reductions have amounted to about $7.4 billion. Of this total, the administration can claim credit only for $1.4 billion. The major tax reductions which have occurred were: (1) A reduction of about $3 billion in individual income taxes on January 1, 1954. This reduction was automatic, having been provided for by the Revenue Act of 1951 which effected a temporary increase in tax rates as a means of financing in a noninflationary manner increased Federal expenditures occasioned by the Korean war. (2) The automatic expiration of the excess-profits tax as of December 31, 1953, with a consequent reduction of corporation tax liabilities of about $2 billion. This tax was scheduled to expire, under the Excess Profits Tax Act of 1950, on June 30, 1953, but at the administration's request was extended for 6 months. (3) The Excise Tax Reduction Act of 1954, effective April 1, 1954, resulting in a revenue reduction of $1 billion. The administration opposed this reduction. (4) The Revenue Act of 1954, incorporating the administration's proposals for

[31] Ibid., p. 8.

revision of the Internal Revenue Code. This act resulted in revenue reduction of $1.4 billion, of which over 75 percent was for the benefit of corporations and high-income individuals.

The record shows, therefore, that the administration can claim credit only for the last tax reduction listed above. It is notable that the tax action contributed by the administration was heavily loaded in favor of the well-to-do and corporations and provided no general tax reduction for most taxpayers in the lowest and middle-income brackets.

Contrary to its claims, the administration did not promptly employ fiscal policy to counteract the recession of 1953–54. None of the tax reductions occurring in 1954 were directed to this purpose. The Revenue Act of 1954, the administration's only tax proposal of the year, was intended to provide long-run structural reform rather than anti-recessionary stimulus. Prompt action against recessionary influences would have called for tax reduction in the fall of 1953, before the recessionary influences had gathered full force.

The administration's claim that it extended the automatic countercyclical workings of the fiscal system is grossly exaggerated. It is true that some improvements were made in the various State unemployment insurance systems. These are welcome. But the major needed improvements—increasing the amount and duration of weekly benefits—have not been energetically promoted by the administration.

The Revenue Act of 1954 made only one improvement in the countercyclical flexibility of the revenue structure. This was the extension of the carryback of net operating losses from 1 to 2 years. Since assuming office, however, the present administration has made no major proposal for increasing the built-in flexibility of our tax system. As the report of this committee's Subcommittee on Tax Policy, headed by Representative Wilbur D. Mills, pointed out, the primary requirement in this connection is restoration of the eroded individual and corporate income-tax bases and greater effective progression in the individual income tax. The administration has offered no constructive proposals in these areas.

On the question of the broad outlines of fiscal policy required to promote stability in the economy, the administration's statements this year are also inadequate. The President's Economic Report states as a fundamental principle to be observed in managing the Nation's fiscal affairs that "* * * sufficient revenues should be raised to meet the Government's outlays, if not every individual year, then surely over a term of very few years."[32] The report also observes that "Once a budgetary surplus comes definitely into sight and economic conditions continue to be favorable, we should begin reducing our huge public debt."[33] We are happy to note the President's echoing the position expressed in the report of this committee's Subcommittee on Tax Policy.

While we commend the administration's statements about the desirability of applying budget surpluses to debt reduction when the economy is booming, we fail to find evidence of plans for achieving this laudable purpose. Making up for the deficit in recent years will be a formidable undertaking. Between the end of fiscal 1952 and fiscal 1955, the public debt increased by $15.3 billion, $8.3 billion

[32] January 1956 Economic Report of the President, p. 73.
[33] Ibid., p. 76.

of which represents the increase in the last 2 fiscal years. This increase is the greatest in any 2 consecutive peacetime years in our Nation's history.

We cannot discern in any of the President's messages this year how the administration proposes to recapture the $8.3 billion of debt increase incurred during its first 2 full years in office. True, the budget message hopefully refers to modest debt reduction in fiscal 1956 and 1957, aggregating in the neighborhood of $600 million, less than one-tenth of the debt increase in the 2 preceding fiscal years. More to the point, however, is that the debt reduction in fiscal 1957 presumably is to be financed out of a $350 million increase in postal rates and the assumption that the cost of the soil-bank program will be financed in part from the sale of 2.8 million bales of surplus cotton. Even this very modest debt reduction, therefore, appears to be exceedingly speculative.

Debt reduction when the economy is booming is highly desirable. It should not be financed, however, by sacrifice of public services required for continued economic growth. Fiscal integrity calls for a clear statement of the impact of increasing Government outlays on the Government's budgetary situation and a straightforward facing of the resulting facts. It is not served by gratuitous assertions of "principles" which mislead the public into expecting developments which may not be forthcoming.

On the question of tax reduction, the President's report observes that the present economic circumstances do not warrant such action and calls for extension of existing corporation income tax and excise rates.

The committee has agreed, point 6, that this is good policy for the present state of the economy. We note, however, that the President's report is silent with respect to what is the proper occasion for general tax reduction. The fiscal principles enumerated in the report are grossly misleading if not coupled with an equally strong recommendation that if economic conditions become unfavorable—a possibility explicitly noted in the President's report—we should not hesitate to reduce taxes, thus moving temporarily in the direction of a budget deficit. This is the necessary corollary of overbalancing the budget and providing debt reduction when the economy is booming. Fiscal integrity, if it is not to be a hollow phrase, calls for using the Federal Government's fiscal powers deliberately in such a way as to minimize economic fluctuations from the path of steady growth.

The Secretary of the Treasury apparently does not now accept this generally held principle of fiscal policy. In the past he has justified tax reductions which resulted in increasing budget deficits. Now he states that general tax cuts should be provided only when the Federal Government's budget shows a surplus, ignoring the fact that tax reductions under those circumstances may well be inflationary. He has imposed the weight of his authority on the President's Budget Message to demonstrate that we cannot now consider tax reduction, since the estimated administrative budget surpluses for the fiscal years 1956 and 1957 will be very modest indeed.

It is instructive, however, to go behind these estimates of budget receipts to the income estimates of personal and corporate income upon which the Secretary avers they are based. We find that Secretary Humphrey estimates that personal income in 1956 will be $312.5 billion and corporate profits will be $43 billion. The Secretary stands

firmly on these figures, even when shown that they were exceeded by the end of 1955 and therefore necessarily imply a leveling off in economic activity in 1956. During the hearings the Secretary decried this implication by asserting that the official estimates for the end of 1955, presented by the Council of Economic Advisers and the Department of Commerce, are wrong, and that his estimates are consistent with continued economic growth in 1956 as repeatedly predicted in the budget message.[34]

On the basis of these facts and the Secretary's adamant position, we want to raise the question: Could it be that the Secretary has deliberately understated his assumptions and the resulting Government revenues in order to be in a position later in the year to announce a greater surplus than was anticipated in the budget message, and, therefore, to recommend tax reduction at a time when such a recommendation would, presumably, be of greatest political value?

We wish to assert in the clearest possible terms that we should not reduce taxes if a greater surplus does in fact emerge as a result of a continuing boom in the economy. To do so would be to contribute to inflationary pressures. On the contrary, we should consider reducing taxes only if the Secretary's estimate of personal income and corporate profits proves correct, since this might well indicate the need for expansionary fiscal action to maintain full employment.

OVERTONES OF THE 1920'S

Although the following comparisons are not necessarily indicative of the possible course of the economy, we note certain overtones of the 1920's in our current economic situation. To disregard these overtones would be irresponsible. In the late 1920's we were lulled into a false sense of security by slogans of "permanent prosperity."

We have already noted the depressed conditions of agriculture and the wave of business mergers, the prevalence of pockets of industrial distress, and the dislocation of the price structure. We find the counterpart of these developments in the 1920's. The rapid rise in stock prices since mid-1953 and the weakening of residential construction activity also bear a striking resemblance to major development in the 1920's.

Because of the built-in stabilizers provided by Democratic administrations the effect of these developments is less likely to result in as widely fluctuating economic conditions as prevailed prior to their enactment. The expansion of the Federal progressive income tax, the establishment of unemployment compensation, the social security laws, the farm programs, the minimum wage, bank deposit insurance, and other progressive and generally accepted legislation all help to cushion and offset economic declines.

With the built-in stabilizers and the apparent willingness of most to use fiscal and monetary policy to offset economic fluctuations, there is no reason why our society must repeat the errors of the past.

RECOMMENDATIONS

Farm policy

Agricultural programs must insure that the farmer has a fair share of the national income. We endorse the committee's views in sup-

[34] Hearings, pp. 210, 215.

port of the soil bank and its observation that this program does not provide an ultimate solution to the problems in the farm economy.

[Senator Fulbright: I do not endorse all of the comments and recommendations of my colleagues with respect to the soil bank and depressed areas programs. I wish to withhold judgment on these matters.]

The basic problem underlying agricultural surpluses is a deficiency of total demand for farm products relative to agricultural productive capacity. The committee has stressed the need for programs to expand domestic and foreign consumption and for intensive research to develop new uses for agricultural products.

We recommend, as an immediate measure to reduce current surplus stocks, that these stocks be used more extensively to supplement the diets of those inadequately fed, both at home and abroad.

School-lunch usage of surpluses should be expanded.

We should barter more of our surplus stocks with friendly nations for supplies of critical and strategic materials.

Surpluses should be used more generously to improve family diets in the industrially depressed areas.

The Government should direct the soil-bank program so as to concentrate on the retirement of marginal lands rather than strive for a patchwork banking of more productive acreage.

The Government should do its part in the soil-bank program by retiring a portion of the 1.4 million acres it now has leased for production of crops, and of the 245 million acres on lease for livestock grazing.

To assure minimal adequacy of the soil-bank program, the incentive payments must be set at a level high enough to make up for the loss in income (deducting operating costs) occasioned by a shift to non-cash crops. Farmers will not readily retire land from production and accept as payments a greatly diminished amount per acre than they might realize in net income by continuing to plant and harvest. The payments must be realistic and not entail a further great loss of net income to the farmer.

The program must not be made primarily dependent upon the sale of domestic surpluses for its financing. That simply subjects the farmer to more hazards. We look with disfavor on any proposal to make the farm programs in great part dependent on our ability to dispose of the currently existing surpluses.

We believe our foreign trade policy, particularly with regard to farm products, requires a thorough review and extensive revisions to move more products to undernourished nations.

Congress should limit the payments to a single farm unit, in order to prevent low-cost factory farms from profiting unduly from programs undertaken to assist the family-sized farm.

Small business

The Federal Government must proceed with a real determination to develop a vigorous policy and effective machinery to aid small business. It must develop more effective tools with which to combat giantism, the trend to business concentration. Antitrust procedures should be strengthened, and appropriations for adequate enforcement must be provided. Small-business tax policy needs revision.

[Representative Patman, vice chairman of the committee, has introduced a bill which would reduce the normal tax rate from

30 to 22 percent, increase the surtax exemption to the first $100,000 of taxable income, and substitute for the present flat surtax rate a moderately graduated rate, rising to a maximum of 53 percent on that part of a corporation's income which is in excess of $1 billion. This bill would reduce tax liabilities of corporations with less than $36 million of taxable income and raise the tax on those with greater incomes. This proposal contemplates no reduction in Federal revenues. Mr. Patman urges that serious consideration be given to this proposal.]

[Senator Fulbright has introduced two bills to afford tax relief to small corporations. The first of these would reverse the present corporation income-tax-rate structure and provide a 22-percent normal tax, applicable to the full amount of the corporation's taxable income, and a 30-percent surtax, applicable to taxable income in excess of $25,000. The second bill, which would provide a 22-percent normal tax and a 31-percent surtax, is offered if it should be necessary to prevent any net revenue loss from this type of revision. Senator Fulbright urges the consideration of these proposals in connection with legislation to extend corporation income and excise tax rates.]

We approve the program to strengthen antitrust procedures (January 1956 Economic Report of the President, p. 101) and we hope that the administration will actively press for enactment of this program. We particularly favor the proposals for prior notice to antitrust agencies of proposed mergers, the regulation of banking mergers, making Federal Trade Commission orders final unless appealed to the courts, and authority for the Department of Justice to require production of records without resort to grand jury proceedings.

[Representative Patman does not agree that a bill merely requiring prior notice will correct the procedural deficiencies in the present law which render the law largely ineffective, and recommends a bill which he introduced, H. R. 6748, to correct these deficiencies.]

In addition we recommend enactment of S. 11 and H. R. 11, identical bills, to strengthen the Robinson-Patman Act and afford small business a greater degree of protection from abuse of power through unjustified price discriminations.

[Senator O'Mahoney states: Each year it becomes increasingly clear that existing financial institutions and established investment channels do not provide the facilities or methods by which little, local independent businesses can get funds for expansion and growth. As a partial aid, it has been necessary to provide governmental institutions and governmental funds to meet this need. What is really needed is a new private system to fill the gap. Authorization and Federal encouragement should be given to the establishment of a regional system of capital banks or investment companies organized specifically to meet the needs of small and new businesses which now lack venture capital and loans patterned to their needs. I have offered in the Congress plans for such regional banks on previous occasions and feel that such a plan should be enacted into law as soon as possible.]

We are concerned about the impact of recent price increases of certain basic industrial products, particularly metals. These increases significantly exceeded increases in production costs. In one

case, they were justified as necessary to finance future capital outlays. The price increases are evidence of the lack of effective competition in these industries. The power of companies in these industries to administer their prices may well have adverse consequences both for general economic stability and for the efficiency with which productive resources are used. We urge that antitrust policy be focused on these problems, as well as on explicit developments in business concentration.

We recommend that the Small Business Administration proceed more resolutely to intervene in behalf of the allocation of defense contracts and subcontracts to small business. At least three statutes,[35] require that a "fair proportion" of Government contracts for supplies and services shall be placed with small-business concerns. One of the duties assigned to the Small Business Administration by Public Law 163, 83d Congress, is to plan ways and means for seeing that the "fair proportion" mandate is carried out, and to make such recommendations to Federal procurement agencies. As the Senate Committee on Small Business has pointed out, SBA is not now using the authority which it possesses to assist smaller concerns with allocation of defense contracts. (S. Rept. 1368, 84th Cong., 2d sess., p. 23.) Unless SBA proceeds more vigorously in this field, we recommend that Congress consider mandatory legislation to aid small concerns.

Public Law 163, 83d Congress, confers upon the Small Business Administration the authority and the duty to make realistic industry-by-industry definitions of "small business" for Federal procurement purposes. These definitions have not yet been made. In his report of November 9, 1955, the Attorney General reviewed this matter and pointed out that the present single standard of 500 employees or less, without respect to industry or line of commerce, is "inadequate." In order to assure that the national small-business policy established by the Congress in Public Law 163 is effectively carried out, we recommend that the Congress write into the law a suitable definition of "small business" as a directive to be followed by the executive departments in their procurement activities.

In an era of rapid technological change such as the present, the participation of small and independent businesses in scientific research and development is essential if they are to maintain their competitive position. The Federal Government can make an effective contribution toward strengthening the position of such firms by adopting a policy of more widespread distribution of its research and development contracts. Congress should consider legislation directing that a larger percentage of future Federal expenditures for research and development be allocated to small business.

Natural resources

We recommend that the appropriate committees of Congress institute a thorough review of the administration's natural-resources policies and programs.

We reaffirm our support of the proven policy of multipurpose basin development and conservation of water resources.

The synthetic-fuels program should be revived.

[35] Sec. 2 (b), Public Law 413, 80th Cong.; sec. 302 (b), Public Law 152, 81st Cong.; title 2, sec. 203, Public Law 163, 83d Cong.

We must develop a national timber policy to assure a sustained yield of timber products for the future.

We reiterate our recommendation that our agricultural surpluses be used more extensively to acquire critical and strategic materials.

Depressed areas

We regard the administration's bill for aid to depressed areas (S. 2892) as unrealistic and inadequate. It fixes the Federal participation in projects at a minimum or token level. It places self-defeating requirements upon the prostrate local communities which need help. Its $50 million fund is a token assistance. It provides an unwieldy system of administration divided between the Departments of Commerce and Labor. It makes no provision for grants for public works. And it makes no provision for extended unemployment compensation while unemployed workers are trained in new skills which will enable them to secure employment.

We recommend that Congress enact legislation such as S. 2663 in lieu of the administration's program. S. 2663 meets the problem with $100 million for loans, $100 million for public works, a single administration of the program, and provision for retraining of workers. S. 2663 is adequate; S. 2892, the administration's bill, does not begin to meet the problem of distressed areas.

Underemployment and low incomes, as we have pointed out on a number of occasions, are not confined to industrial and urban areas. Rural farmers also suffer from depressed conditions in time of plenty.[36] In 1954 more than 1.4 million rural farm families had incomes of less than $1,000 per year, and 1 million of these were concentrated in the South.[37] Positive measures should be taken for raising the economic status of farm families. We believe that sound economic growth dictates that better programs be devised and put into practice, in accordance with legislation now pending before the Agriculture Committees of the Congress.

Fiscal policy

We want to emphasize our support of the committee's fiscal policy recommendations (points 6 and 7). If the general level of economic activity continues to rise at the rate prevailing at the end of 1955, we should avoid any overall tax reduction. The resulting budget surplus, which under these circumstances would exceed that shown in the President's budget message, should be applied to reducing the bank-held Federal debt. On the other hand, if it becomes apparent in the weeks and months ahead that a more rapid growth in total demand is required to assure full use of our productive capacity and full employment, the Congress should be prepared to act promptly in providing general revenue reductions. In this event, top priority should be given to reducing income taxes on low- and middle-income individuals.

In any event, the Congress should give careful attention to improving our revenue system in the light of the standards set forth in the Tax Policy Subcommittee's report. We should seek to promote greater equity in our tax laws by eliminating preferential provisions which erode the tax base and which distort the allocation of resources. Efforts should be made to improve the built-in flexibility of the tax

[36] Joint Committee on the Economic Report, Underemployment of Rural Families, 1951.
[37] Joint Committee on the Economic Report, Characteristics of the Low-Income Population and Related Federal Programs, 1955.

system and to provide a greater degree of uniformity in the application of the income-tax laws. Efforts should also be made to modify any provisions in the tax laws which provide a major impetus toward business concentration and to improve the tax climate for small and new businesses.

Housing and automobiles

The committee has agreed in its findings (point 2) that it is unlikely that the 1955 rate of expansion can be maintained this year. We want to supplement this statement by pointing out two areas of economic activity in which slack is now developing.

1. First is the decline in new housing starts. The President's report states that "such indicators as we have of proposed home construction are also pointing downward," and that "it seems unlikely that the exceptionally high volume of the past year will be attained" in 1956.[38]

A decline in housing will affect many other industries, including glass, paint, manufacturing, household appliances and equipment, electrical manufacturing, lumber, steel, and fabricated products. The administration apparently expects that a part of the slack will be taken up by business investment which has been rising vigorously in recent months. This is certainly to be hoped. It is regretable that the administration refuses to propose more than a token program, and suggests only meager liberalization of Federal Housing Administration mortgage insurance.

2. Automobile production in 1955 reached record heights. There were produced 7.9 million passenger cars, and 1.2 million trucks. About 7.4 million automobiles were sold. At the end of the year, however, dealers still had about 857,000 automobiles in stock, unsold. Dealers were forced to lengthen the maturities of their credit terms and lower the prepayments on automobile purchases. The major portion of the $5.4 billion increase in consumer installment debt in 1955 is attributable to purchase of automobiles. Automobile paper increased from $10.4 billion at the end of December 1954 to $14.3 billion at the end of December 1955. The President's report expresses the hope that "if it is unlikely that consumers will buy automobiles in 1956 at last year's extraordinary rate, they may spend more freely on home improvements, home furnishings, and nondurables."[39] This cannot be taken for granted.

We urge that the administration watch with extreme care the developments in housing construction, automobile production, and employment in these industries over the next several months; and that it be prepared to act courageously and vigorously with credit and other instruments if action is required.

Foreign Trade

We regret that in the 1955 enactment of the reciprocal trade program the administration saw fit to accept restrictions and cutbacks to mollify the high protectionist elements of the Republican Party. A vigorous and straightforward stand in favor of full development of international trade at that time would have saved highly desirable

[38] January 1956 Economic Report of the President, pp. 44, 46.
[39] Ibid., p. 42.

features of the act. This was not forthcoming. In addition we have seen the high principles announced by the administration negated by specific administration actions on such items as bicycles, watches, soil pipe, and foreign bids on machinery contracts.

We favor United States membership in the Organization for Trade Cooperation, and simplification of the customs valuation procedures.

[Senator O'Mahoney states: I reserve final judgment on the merits of United States participation in OTC until hearings before the Senate Finance Committee have been completed.]

We favor extension of the Export-Import Bank.

We believe that the administration's proposal for a 14-point tax reduction on foreign income should be rejected as an inappropriate means of stimulating private foreign investment.

Monetary policy

The committee has agreed, point 13, that present conditions do not call for the use of Government authority to limit terms of consumer installment credit. It has been suggested that consumer installment credit be examined in conjunction with a study of the entire debt structure, private and public.

We endorse this suggestion and strongly urge that any such study give due regard to the question of the impact of consumer credit controls among the various income groups in the economy. We also urge that the study seek to bring out any differential impact which selective credit controls might involve as compared with general monetary action. Considerations of equity should play as large a part in determining the type of monetary controls adopted as they do in tax policy.

In addition, the study should deal at length with the impact of consumer credit controls on the effectiveness with which resources are allocated. The committee has noted that such controls necessarily limit the economic freedom of individuals. A basic question is whether these limitations may not distort consumer choices and therefore have a differential impact on prices, employment, and profits in the affected industries as compared with the impact of general monetary and fiscal measures to promote economic stability.

Requirements of the Employment Act

Since first taking office, this administration has consistently ignored the explicit directive in the Employment Act to set forth the levels of employment, production, and purchasing power needed to carry out the objectives of the act. By failing to meet this obligation, the administration has in effect asked this committee and the Congress to accept on faith the recommendations set forth in the President's Economic Report, the Budget Message, and the State of the Union Message. The committee has, therefore, called upon its staff to interpret the hints and clues offered in an assortment of statements by heads of various executive departments and agencies. Although the staff's efforts have been admirable and their results amazingly accurate, we do not feel that it should have to undertake a responsibility specifically delegated by the act to the President and his Council of Economic Advisers.

In lieu of the advice to the Congress which the President is required by law to provide, the 1956 Economic Report offers the following statement with respect to the current economic outlook:

> Under current conditions, the economic growth of our Nation is limited by industrial capacity and accretions to the labor force. When the economy has reached so high a level its near-term course is inevitably surrounded by a margin of uncertainty, and minor movements can occur without involving a change in general trend. Taking recent developments all together, it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth (p. 49).

We are at a loss to interpret this statement. On the one hand, it suggests that economic growth will continue this year at the most rapid rate made possible by increases in industrial capacity, productivity, and additions to the labor force. On the other hand, it seems to say that we might very well experience a recession or for that matter inflation. Finally, it implies that, all things considered, production, employment, and income may not fluctuate too much and the economy will retain basic growth-generating forces. This statement offers little guidance to the Congress in evaluating the President's proposals to achieve the Employment Act objectives.

Not only has the administration ignored the Employment Act directive, but it has also delayed submission of its report until late January. The Act provides that the report be submitted at "the beginning" of each session. We urge again, as we did in our 1955 report, and as the chairman urged in a letter to the President early last September, that these delays be avoided. The Act requires the Committee to make its report to Congress "not later than March 1 each year." This affords little time for hearings, for eliciting the views of non-Government experts, and for considered judgments by the committee. It may prove advisable, as suggested in our 1955 report, to fix a deadline for submission of the President's report.

PAUL H. DOUGLAS.
JOHN SPARKMAN.
J. WILLIAM FULBRIGHT.
JOSEPH C. O'MAHONEY.
WRIGHT PATMAN.
RICHARD BOLLING.
WILBUR D. MILLS.
AUGUSTINE B. KELLEY.

ADDITIONAL SUPPLEMENTAL VIEWS OF SENATORS DOUGLAS AND O'MAHONEY AND REPRESENTATIVES PATMAN, BOLLING, AND KELLEY

RELATIONSHIP OF THE COUNCIL OF ECONOMIC ADVISERS TO THE JOINT ECONOMIC COMMITTEE

We have noted and approve the committee's observation with respect to the reluctance of the Chairman of the Council of Economic Advisers to discuss with the committee the implications and assumptions in the Economic Report. The committee takes the position that the Chairman and other Council members should, in the interests of consistency, be equally reluctant to avoid the role of policy spokesmen for the administration through various public media. We agree that this consistency is the very least that we may properly expect of the Council. We believe, however, that the basic issue is not so easily resolved.

In order properly to discharge its functions of reporting its findings and recommendations with respect to each of the recommendations in the President's Economic Report, the Joint Committee on the Economic Report must be in a position to appraise the economic assumptions upon which the President's recommendations are based. In the absence of a clear understanding of such assumptions and their implications, the committee cannot intelligently appraise the appropriateness of the program and policies which the President proposes as a means of fulfilling the objectives of the Employment Act.

It is clear, therefore, that the most important testimony which the committee should receive in its hearings on the President's report is that concerning general economic conditions and major economic trends which may bear on maintaining steady economic growth. While we respect the position of the Chairman of the Council of Economic Advisers as adviser to the President, we do not see any attributes of this position which call for treating his and the Council's evaluation of the Nation's economic situation as classified material. Accordingly, we believe that the Chairman of the Council should testify fully not only with respect to the matter explicitly dealt with in the President's report, but also with respect to whatever basic assumptions about the economic outlook may underlie the President's recommendations. Only the Council of Economic Advisers is in a position to furnish the committee with this type of information.

It is difficult at best to speak or write clearly for public consumption on economic matters. This difficulty is reflected in the Economic Reports of the President and underlies the necessity for elaboration of the materials in the report in the committee's hearings. Therefore, when the Chairman of the Council of Economic Advisers refuses to testify frankly and openly in explanation of the meaning of the contents of the President's report and its assumptions, one can scarcely avoid the feeling that there is an unwillingness to share with the public and the Congress knowledge of the facts and reasons which went into

the formulation of the outlook and recommendations contained in the report. The only other explanation of this insistence on off-the-record and unreported testimony is the existence of a fear that it might disclose differences of opinion between the President and his advisers. If there are such differences of opinion, the Congress and the public should know.

The Council's attitude is strongly divergent from the express purpose of the President contained in his message of June 1, 1953, accompanying Reorganization Plan No. 9 of 1953, the purpose of which was to improve the machinery of the Employment Act of 1946.

> * * * I expect to impress upon the Council of Economic Advisers the importance which I attach to the fullest cooperation of the Council with the joint committee to assist the joint committee in its important tasks.

Should the Council members, and particularly the Chairman, persist in insisting on an off-the-record appearance before the committee, we strongly recommend that the Employment Act be amended to authorize and require the Chairman of the Council of Economic Advisers to appear in an open session of the committee to discuss the matters set forth in section 3 (a) of the act.

PAUL H. DOUGLAS.
JOSEPH C. O'MAHONEY.
WRIGHT PATMAN.
RICHARD BOLLING.
AUGUSTINE B. KELLEY.

SUPPLEMENTAL VIEWS OF SENATORS FLANDERS AND GOLDWATER AND REPRESENTATIVES WOLCOTT, TALLE, AND CURTIS

Essentially we concur in the report of the committee. There are certain overtones in the report resulting from literary style perhaps, but nonetheless serious in their implications, which we feel must be clarified so that our concurrence in the report will not be misunderstood. Furthermore, there is, in our judgment, a completely inadequate treatment of the farm problem from the standpoint of economics.

The preamble of the report carries with it an assumption that the Employment Act has been accepted and its worth established. However, there still remains a basic disagreement as to just what the purposes of the Employment Act were and are. This involves the very philosophy of government. There are those who feel that the role of the Federal Government in maintaining "maximum" employment in our economy should be a more active one; there are those who do not believe that the Federal Governmenti or any political government over a long period can maintain an actve role without thereby damaging the economy and "maximum" employment; there are those who take intermediate positions. The Employment Act does not attempt to resolve these differences and remains, as we see it, merely a means of establishing machinery whereby both the executive and the legislative branches of Government may make studies and consider economic advice along certain broad lines.

The President's Economic Report both this year and last year stresses throughout the importance of maintaining a proper balance between private enterprise, the Federal Government and the State and local governments. The President's Economic Reports clearly state that the primary emphasis must be placed upon private enterprise and that the Federal Government must be essentially in an ancillary role. There are those who disagree in varying degrees in both directions. This matter should be brought out clearly in the committee's report, and sidestepping of this basic issue should cease. We of the Joint Economic Committee have an obligation to clarify what appears to us to be the apparent intent of Congress in these respects. We believe the history and facts incident to the enactment of the Employment Act of 1946 clearly emphasize the conclusions reached by the President—that the primary emphasis must be placed upon private enterprise, and that the obligation of the Federal Government should be to constantly strive to create economic atmospheres in which private enterprise can accomplish the full purposes of the act.

The committee report, on several occasions, refers to the President's Economic Report and the President's budget as if they were together the basis of this committee's study. The point is raised that some felt the budget and the Economic Report were not consistent. The fact that the two Presidential documents are prepared to do two

entirely different things is not mentioned, although that fact was clearly pointed up when the question of consistency was first raised. Naturally, the budget has relation to the Economic Report, but if this committee is maintaining that there is a hard and fast relationship between the two, we think it is incumbent upon this committee to make a thorough study of such a thesis instead of trying to dispose of the matter by presumption. This is an area worthy of study and we hope the committee will undertake it, along with a study of another presumption inserted into the report, to wit:

> . . . an obligation rests upon the Council of Economic Advisers to take the leadership in efforts to coordinate the assumptions underlying the Government's entire economic program, etc.

Frankly, we don't know how the committee arrived at such a "feeling"; it was never examined or discussed in either public or executive hearings.

We want to call attention to an example of verbiage which carries overtones that may convey meanings beyond what the sentences were intended to convey. Recommendation 3 starts:

> The challenge of the coming year is thus one of adjusting to a more sustainable pattern of balanced growth. * * *

Perhaps the pattern of balanced growth is not sustainable, but this is a matter to be openly posed rather than presented as something already concluded and agreed upon as the insertion of the adverb "more" accomplishes.

THE FARM ECONOMY

More words are expended in recommendation 8 on the farm economy than on any other recommendation. Yet the basic economic factors involved in the farm industry are not even posed, let alone discussed. We list a few which certainly must be considered in an analysis of the farm problem.

1. The ratio of farm income to national income has been declining since the establishment of our Republic in 1789, as our society has continued to industrialize. Looking ahead to the future, we may assume that this ratio will continue to decline if our country continues to industrialize.

2. The ratio of farm population to national population has continued to decline also as the Nation has industrialized. It may be assumed that this ratio will continue to decline, if our country continues to industrialize.

3. Farm production has continued to rise. This is largely the result of mechanization, use of fertilizer, botanical research, etc. It appears that this, too, is a continuing trend.

4. Factories have moved into rural areas. The distributive industries have expanded as the demands of the people for service, packaging treatment, etc., have increased. All this has opened up part-time employment to the farm family. Today about one-third of the farm family's income comes from nonagricultural pursuits. What about this trend? Will it continue? What is its significance in the farm economy?

5. World War II brought unusual demands upon American agricultural production. The American farmer met those demands by increasing his acreage and acquiring the necessary machinery and

increasing other overhead to utilize this increased acreage. The increased demand of World War II disappeared as the rest of the world went back to agricultural production. The American farm production was not geared to this lowered demand. Consequently surpluses developed.

6. Increased efficiency in manufacture brings with it lower unit cost, which, in turn, if the laws of economics are operating, will be reflected in some lower cost per unit to the consumer. The same law operates in some degree in regard to efficiency in farm production resulting from mechanization. This situation is accentuated, if supply is already well ahead of demand.

7. Although the per capita farm income (the standard of living of the farmer) has been decreasing since 1951 the great rises experienced during World War II have still left the percentage increase in per capita income of the farmer in 1955 (from 1934 the date figures are first available) considerably above the national per capita income increases.

8. Mechanization and increased overhead place a premium on larger operations at the expense of smaller operations.

9. The prices of farmlands (the basic investment of the farmer) are the highest in history.

10. Farm foreclosures are about the lowest in history.

Now, we do have a farm problem, but it is hardly in the area that most recent political discussion has been placing it. It must be within the confines of the economic factors we have set out, plus some others. We believe this committee would serve the farmers much better by taking the farm problem out of politics and placing it back into economics; at least until agreement is reached upon the economic factors. Then it can be referred back to the political area with some possibilities of solution; certainly with greater assurance that it won't be made worse by failing to pay attention to the few reliable economic facts we do have.

RALPH E. FLANDERS.
BARRY GOLDWATER.
JESSE P. WOLCOTT.
HENRY O. TALLE.
THOMAS B. CURTIS.

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MINORITY VIEWS OF SENATOR WATKINS

It is with some regret that I find myself unable to join in a majority report. This decision is made both upon the partisan nature of the 1956 hearings on the January 1956 Economic Report of the President, and of the findings of the majority report, which are couched for the most part in verbiage obviously written to minimize the economy's progress in 1955 and to cast doubt upon the ability of the economy to achieve, with reasonable success, the objectives of the Employment Act in 1956. This and the further fact that the majority report is largely unsupported by economic evidence produced at the hearings or in the staff report on the 1956 outlook make it imperative that I register a strong dissent.

First, let me state that the committee's decision this year to depart from the procedure, relied upon in the past, of calling before it a selected group of economists for their comments and appraisals smacked of sheer partisan politics.

No better evidence of this fact is needed than to note the absence of any comment in the majority report with respect to "natural resources policy," although that topic was selected by the Democrat members of the committee as one of the *five* topics for the committee hearings, which pitted, on successive days, the present Secretary of the Interior, Douglas McKay, against the former Secretary of the Interior, Oscar L. Chapman. If it was such an important topic that the committee had to devote a major portion of its hearings to its consideration, then certainly it should have been worthy of some comment in the majority report.

The new procedure which replaced the testimony of competent economists—some 80 witnesses were heard in 1955—with a group of political and administration antagonists, except in a case or two, was approved by a straight party vote—the Democrats for it; the Republicans opposed. Such a decision by the Democrats in an election year has served, in my opinion, to retard the professional approach to the objective study of the economy, which some members, at least, had believed was being gradually achieved by the committee. The only reason the testimony of the "politician witnesses" failed to produce the expected denunciation of the President's Economic Report was because the year 1955 was plainly a record year, which saw the achievement of the objectives of the Employment Act—maximum employment, production, and purchasing power.

In my opinion, the usefulness of the committee's work and report, as a result, have been compromised both to the detriment of the committee's future work and to a better understanding on the part of the public as to the functioning of the economy.

Second, the statement in the majority report concerning the reluctance of the Chairman of the Council of Economic Advisers to "discuss fully and freely for the record the implications and assumptions of the Economic Report," and which also suggests that "in the

interests of consistency," the "Council members should in the future likewise avoid the role of policy spokesmen for the administration through the press, the air waves, and the speaker's platform," (p. 2) makes it very clear that, quite to the contrary, as suggested by the opening sentence of the majority report, the 10th anniversary of the Employment Act of 1946 *does not find* "the * * * machinery of the act firmly established" (p. 1).

For example, the question raised by some Democrat members of the committee in their supplemental views to the 1955 committee report with respect to this matter remains unresolved. Namely:

> Does the Council of Economic Advisers act solely as anonymous professional advisers, or does it represent the President's overall economic analyses and policies before the Congress and the public just as Cabinet members represent separate segments of his program? (p. 15)

First, section 4 (c) of the Employment Act of 1946, as amended, says:

> It shall be the duty and function of the Council—
>
> (1) To assist and advise the President in the preparation of the Economic Report.
>
> (2) To gather timely and authoritative information concerning economic developments and economic trends * * *, and submit to the President studies relating to such developments and trends.
>
> (3) To appraise the various programs and activities of the Federal Government in the light of the policy declared in section 2 * * *, and to make recommendations to the President with respect thereto.
>
> (4) To develop and recommend to the President national economic policies to foster and promote free competitive enterprise * * *, and
>
> (5) To make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

This language clearly establishes the Council, as students of public administration would term it, a *"staff agency"* to the President. Reorganization Plan No. 9 of 1953 transferred—

> so much of the functions vested in the Council by section 4 (c) of that act as consists of reporting to the President with respect to any function of the Council under * * * section 4 (c) * * * to the Chairman of the Council of Economic Advisers.

The chairmanship, therefore, by the language of section 4 (c) and this reorganization plan is clearly established as a staff adviser to the President. A staff agency or official is an organ advisory to a line or operating official but without operating responsibilities of its, or his, own. The "staff function" involves the study of problems, the proposing of alternative courses of action, and an analysis of their probable effects to a *line* or operating official, such as the President in this case, who has responsibility for carrying out the activities of his particular organization, which in this case, is the executive branch of the Government.

If any of the recommendations of a staff officer are put into effect, they are done so upon the *decision* of the responsible operating official to whom the staff agency is responsible—not upon the order of the staff unit itself. In this respect, the Employment Act, although requiring congressional confirmation of the Council members and its Chairman, does not establish any formal relationship between these staff positions or the Joint Committee on the Economic Report.

Students of public administration are also in agreement, on the other hand, that if *staff* personnel are to be effective, they should

serve exclusively in a staff capacity. As I noted in my supplemental views to the 1955 committee report—

> It is upon this basis that the Council must demonstrate the utility of its services. Members of the Council are of course political appointees, but this does not imply nor require in this respect that they be something more than economists (p. 48).

With respect to this matter, therefore, I agree with the viewpoint of the majority report that—

> Council members * * * should likewise avoid the role of policy spokesmen for the administration through the press, the air waves, and the speaker's platform (p. 2).

As I also stated in my supplemental views of last year:

> It is to be regretted that on occasion, since the passage of the Employment Act, Council members have been employed in the role of policy spokesmen for the administration in power. To the degree that this is done, the Council will not only lose that objectiveness which is so essential to a staff agency, but the President's Economic Report itself will also be discredited as a factual and reliable document (p. 48).

Certainly, someone should speak for the President, and should defend his Economic Report in public, before this committee, and the Congress, but it should not be the Chairman of the Council of Economic Advisers. The Constitution under the separation-of-power principle, invests the "executive power" in the President, and it has been established for many years as constitutional principle that the President cannot be required to appear before a congressional committee.

Who then should speak for the President with respect to the administration's economic policy? Advisedly the heads of the executive departments who not only are responsible to the President for administering his program, but who also are publicly responsible for defending those parts of the President's program they execute in public and before the other committees of the Congress. During the 1956 hearings, this committee heard three of these Cabinet officials—Secretaries of the Treasury, Interior, and Agriculture. Had it so desired, it could have received testimony on remaining parts of the President's Economic Report from the other members of the Cabinet. That it neglected to do so is clearly its own fault, resulting from the nature of the hearings the Democrat members of the committee decided upon.

In one other respect, I believe it should be noted that on the 10th anniversary of the Employment Act of 1946, the machinery of the act has not been firmly established and perfected. This relates to the continuing disagreement among committee members as to whether or not the Economic Report of the President should, as the committee report phrased it last year—

> include a clear statement on the goals [maximum employment, production, and purchasing power] needed to meet the objectives of the Employment Act as prescribed by section 3 (a) of that act (p. 4).

I do not agree with the majority report that an obligation rests upon the Council of Economic Advisers, from what I have just said nor by the President for that matter—

> to take the leadership in efforts to coordinate the assumptions underlying the Government's entire economic program and to supply these promptly to the Congress through the Economic Report (p. 6).

As I stated in my supplemental views last year:

Interpretation must be left to the President as a matter of practical necessity, and the President, and the Council of Economic Advisers, have reached the following conclusion concerning * * * section 3 (a) of the Employment Act:

"The phrase can be interpreted as calling for a numerical specification of economic goals, or it can be interpreted as calling for as good a specification of objectives, whether in terms of numbers or otherwise, as can be made. In the former case, one would assert that 'to carry out the policy declared in section 2,' employment must be X, production must be Y, etc. In the latter case, one might assert that 'to carry out the policy declared in section 2,' employment must be a little higher, or substantially higher, etc., the drop in employment and production, if any, during the recent past, after allowing for an increment of growth, would suggest the general order of the magnitudes that are involved (hearings, p. 44)."

It should be recognized by all concerned that the President is a political officer and, as such, he must necessarily be permitted to interpret such legislation in a manner which will lend consistency to and facilitate his leadership role. Not to allow such leeway is to cast the purposes of the Employment Act into narrow partisan politics.

To require by law, or by an interpretation of law, that the President should execute his responsibilities in this area in a definitive and narrowly construed manner is inconsistent with the basic nature of that office and our political system. Dissatisfaction with his administration of the act should be reflected through our political processes utilizing the two-party system, and his position, be he a Republican or Democrat, should not be compromised by the narrow interpretation the committee report places upon the meaning of section 3 (a) of the Employment Act (pp. 47–48).

In this respect, I should like to point out that the committee staff's projections of the level of gross national product required in 1955 to meet the objectives of the Employment Act were $1.2 billion *on the low side*, in terms of constant prices. I also feel, however, as the staff indicated in its report, The Economic Outlook for 1956, which is contained in this document, that the difference for the year of only $1.2 billion cannot be an error of any material significance. But just let the President, regardless of political party, include such projected levels in his Economic Report which may be $1.2 billion below the actual realized gross national product in constant prices, and the politicians, especially in an election year, would cry recession if not depression, when actually, as in 1955, the economy did, without any doubt, achieve the objectives of the Employment Act.

Therefore, I want to repeat the observations I made in my supplemental views a year ago that:

I cannot agree that the President's report would have been more useful had it included estimates covering more detailed parts of the economy or that their inclusion necessarily would render easier the economy's task of reducing present levels of unemployment.

The Chairman of the Council of Economic Advisers, although recognizing that such projections form the basis of the Council's work as a staff agency of the President, told the committee at great length why it was undesirable for these projections to be included in the President's report:

"It is important to recognize the limitations of economic knowledge, and how difficult it is to make useful economic predictions or projections. Serious uncertainties surround even historical descriptions. * * *

"Economists who are familiar with statistical vagaries such as this, and who know how difficult it is to measure with tolerable accuracy even experiences of the past, will hesitate to specify numerical goals for the Nation's economy over the next 6 months or year or 2. They know that in setting goals some arbitrary assumptions * * * which often are no less reasonable than the particular ones selected, can lead to such a wide range of results, that the calculated goals cannot have great value for policy decisions (hearings, p. 44)" (p. 49).

This same cautiousness was expressed by Dr. Ralph J. Watkins in his presidential address to the 115th Annual Meeting of the American Statistical Association in December 1955:

> * * * we are not unmindful of the limitations of our statistical measurements. These measurements of the condition of the economy can be only approximations, for that economy is too massive and too complex to afford any basis for claims to perfection or certainty in our economic measures. The estimates and indexes that are carefully prepared to measure the state of the economy, in terms of such concepts as gross national product, national income, industrial production, employment and unemployment, represent at any given time the best approximations the technicians can arrive at, on the basis of the information available to them at the time and on the basis of the extent of the analysis that time and funds permitted. These measures are not perfect, they cannot represent certainty; and the best we can claim is that they are reasonable approximations at the time and under the given circumstances.

Also, as I stated in my supplemental views of a year ago:

> Certainly, it is necessary to know something about the potential of the economy, but it is just as essential that we recognize the limitations of projections which form, or would form, the basis of public policy. Long-range projections such as those made by the staff committee are very useful to the Congress, and the committee staff and its director are to be commended for their contribution, but it must be realized that their projections suffer the same limitations as those of other professional economists. Given our political system, it is one thing for the Congress to require the President to provide specific projections of production and employment and quite another for a committee of the Congress, through its professional staff, to make such forecasts.
>
> Dr. Paul J. Strayer, professor of economics, Princeton University, in an article published in the American Economic Review for December 1954, entitled "Full Employment—1954 Model," recognizes that the President had valid reasons not to include projections in the Economic Report:
>
> "There is reason to have some sympathy with the Council and the Executive in what must have been a conscious decision to abandon the projections of the Nation's economic budget type * * *. Model projections also invite reaction when not realized and may have a tendency to lead to overcompensation that will result in an inflationary bias. The failure of the forecasts following the Second World War can also be cited in defense of the Council (p. 885)."
>
> Dr. Strayer further concludes:
>
> "To act effectively to stabilize the economy we must either have an accurate diagnosis of the problem, including a forecast of the outlook for a substantial period in advance, or a degree of flexibility in Government programs that will permit us to act boldly to offset known variations from the path of stability with confidence that policies can be reversed as required by further intelligence * * *.
>
> "In most of the reports and testimony (1954 hearings) it is agreed that we cannot have much confidence in our ability to forecast the economic future (Martin Gainsbrugh dissenting) in the short run although there is greater agreement that long-range projections of the future potential may be more accurate. Even if our ability to predict the course of events in the short run should increase, the current state of the world leaves so many external forces free to upset any calculations as to discourage reliance upon a policy geared to projections of even so long as a year" (pp. 51–52).

In summary, the President's 1956 Economic Report does contain an appraisal of the economic outlook for 1956 as it did in 1955. But it is in the nature of an appraisal, as it was in 1955, which recognizes the limitations of forecasting. As the President put it in his 1955 Economic Report—

> it is well * * *, to keep in mind the sobering fact that there is no way of lifting more than a corner of the veil that separates the present from the future (p. 24).

THE ECONOMY IN 1955

Since the Democrat members of the committee have made such a point of criticizing the President's Economic Report for not containing

numerical levels of employment, production and purchasing power needed to achieve the objectives of the Employment Act of 1946, it seems rather inconsistent for the majority report not to contain an analysis of the achievements of the economy in such terms. Rather the majority report merely states that—

> From the standpoint of the overall economy, 1955 was clearly a good year and in most respects a record one (p. 2).

The vital determination for this committee to make is not whether 1955 was "a good year" since the "man in the street" knows that to be a fact, but whether the economy met the objectives of the Employment Act in promoting "maximum employment, production and purchasing power." Failure of the majority report to *unequivocally* point out that—based upon the committee staff's projections made a year ago—these objectives were attained, is inexcusable and a major reason for my dissent. Politics again appears a stronger attraction for the Democrat members of this committee than an objective appraisal and statement of its findings with respect to the functioning of the economy.

For example, we need only to compare the staff's conclusions of a year ago with that expressed in the supplemental views of the Democrat members of the committee—with respect to the projected needed year-end rate of a gross national product of $385 billion to meet the objective of the Employment Act—to substantiate this point. The committee staff, composed of competent, trained economists, concluded that—

> If realized, this expansion would be a substantial accomplishment. It would call for a continuance in succeeding quarters of a rate of advance in economic activity close to that prevailing since the third quarter of 1954. The concensus of views of the witnesses appearing before this committee a month ago was that this rate of acceleration might not be maintained (1955 committee report, p. 83).

In contrast, the Democrat members of the committee concluded:

> If the Employment Act objectives of maximum employment and production are met, a cautious estimate requires a rate of production at the end of this year of about $385 billion (1955 committee report, pp. 10–11).

The conclusion of the committee staff and "the concensus of views" of 80 witnesses who appeared before the committee last year were that such a rate would be a "substantial accomplishment"; the views of the Democrat members of the committee *in contrast* were that such a rate was in effect unspectacular. Under these circumstances, it appears rather odd for the majority report to express as a second finding this year that:

> It seems unlikely that this rate of expansion can be maintained in 1956. Recent low levels of unemployment and unused industrial resources tend to limit the pace of further immediate expansion in real output.

Since the majority report fails to analyze the success the economy had in achieving the objectives of maximum production, employment, and purchasing power in 1955, I feel obligated as a member of the committee to perform this function, although it belongs to the committee as a whole.

Production

In his 1955 Economic Report, President Eisenhower stated:

> With economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of "maximum employment, production, and purchasing power" envisaged by the Employment Act (p. 24).

The committee staff a year ago concluded that the assumptions underlying this forecast would require a gross national product which seemed to—

> * * * imply an estimate of demand by Government, business, and consumers for goods and services totaling about $375 billion for 1955. * * *

and—

> Since the year started at an annual rate of about $365 billion, or less than the "maximum" employment and production level, this demand for 1955 as a whole implies a rise to an annual rate of about $385 billion by the end of the year. * * * (1955 committee report, p. 83).

That the economy in 1955 not only achieved but exceeded this rate of production is made clear by the 1956 staff report contained in this document:

> The staff analysis reached the conclusion that the Economic Report and the budget [1955] probably implied a demand for a gross national product in 1955 of $375 billion, rising from about $365 billion at the beginning of the year to about $385 billion by the end of the year.
>
> The assumed average for 1955 must be adjusted by adding about $5.6 billion to allow for price rises in 1955, and by another $3.4 billion because of revisions in July 1955 of the 1954 benchmark data from which the projections were made. * * * Therefore, the revised annual estimate would be $384 billion. * * *
>
> The staff believes the * * * understatement for the year of only $3.2 billion * * *, is within limits of acceptability and can be easily explained (pp. 101–102).

In ascertaining whether gross national production achieves the objectives of the Employment Act of 1946 or not, it is important that not only the level attained be considered but also that the trend or direction of movement be considered. In 1955, the economy began at a yearly rate in the production of goods and services at a market value of $365 billion—some $10 billion less than the average for the year of $375 billion assumed necessary to meet the three major goals of the economy (employment, production, and purchasing power)—and ended at a rate of $397.3 billion, with an average for the year of $387.2. It also is obvious, therefore, that our economic expansion for the year not only was substantial but rather in fact was *phenomenal.* This rate of expansion resulted in a 6.1 percent increase in *real* output—some 3 percent in excess of the long-term rate for periods not marked by wars or recessions.

Simply phrased, as President Eisenhower expressed it in his 1956 Economic Report, the year 1955 brought us to:

> * * * the threshold of a $400 billion economy, and the recent advance has been accomplished without the specious aid of price inflation. * * *, whether we observe economic activity at the stage of production, or employment, or income disbursement, or consumer spending we find evidence of progress and prosperity. Employment and wages are at record levels. Profits are satisfactory in most industries. Both investment and consumer spending are going forward at a good pace (pp. 1 and 6).

This is not to say as we enter 1956 that some negative or adverse cumulative movements involving some industries and some of our people do not exist. They do exist, and the Congress, as it develops

legislative programs, needs to keep the President's thought in mind that—

> If economic growth is not to be seriously retarded in the future, we must—with due regard to the needs for staying within the limits of Federal incomes—strive to make up for the neglects of the past (1956 Economic Report, p. 12).

However, we should note that in a free enterprise economy, all of the millions of decisions made by businessmen, employees, and Government cannot be right. Some will overestimate their markets, some will not invest enough; others will produce too much of some products which the consuming public will not buy. To a large extent it is the cumulative effect of such decisions in a free enterprise economy which results in cumulative movements, up and down, within our industries. He who would not conclude that the wisdom of these free choices resulted in a greater good for a greater number of people during 1955 than the harm done by the bad decisions is indeed a bold soul. As long as people have freedom to make their basic economic decisions, we shall always have successes and failures, production of too much in some areas and too little in others. Yet, in the aggregate, it is true that only such a free enterprise economy as ours could have produced such an abundance of goods and services as the American economy did in 1955.

Employment

Once again I am dismayed to find not one single word in the majority report devoted to an analysis of whether the economy in 1955 achieved the objective of the Employment Act of 1946 of promoting maximum employment. Yet, during 1955 total civilian employment during 2 months of the year—August and October—stood at 65,489,000 and 65,161,000, respectively. *These were employment levels never before attained in the history of this country.* For the year, employment rose by approximately 2 million and unemployment declined by 576,000, in spite of the fact that 1,379,000 people were added to the civilian labor force, although the staff economists anticipated an addition of only 1 million.

The remarkable gains made by the economy in 1955 were well expressed in President Eisenhower's 1956 Economic Report as follows:

> Total employment rose by over 3 million and unemployment declined by ½ million between the last 3 months of 1954 and the corresponding months of 1955, as the civilian labor force increased by over 2½ million. The average workweek also increased, and there was considerable overtime work, particularly during the latter part of 1955. The longer hours, combined with a continued rise in average hourly earnings, brought weekly earnings to record levels in most industries (p. 114).

In comparison, the Democrat members of the committee observed a year ago that—

> * * * it is a cause of deep concern that unemployment in February 1955 was only about 300,000 below February 1954, a reduction of about 8 percent. The situation looks a little better if we use the seasonally adjusted unemployment index (1947–49 equals 100) of the Bureau of the Census. This index was 110 in February 1955 compared to 114 in January 1955 and a high of 142 in May of last year. This is a reduction of about 23 percent. Even on this basis, however, the reduction in unemployment is not commensurate with the recovery in production. These circumstances were reflected in the warnings at our hearings of possible chronic unemployment at high levels of production (1955 committee report, p. 11).

Odd, is it not, to find these same Democrats a year later in a majority report, warning that "Recent low levels of unemployment and unused

industrial resources tend to limit the pace of further immediate expansion in real output" (p. 2). I can only presume from this statement that they are acknowledging indirectly that the objective of promoting maximum employment was achieved in 1955.

Additional evidence of phenomenal progress in this area is provided by an analysis of unemployment during 1955. Concerning this matter, the 1956 Economic Report observed that:

> The decline in unemployment over the past 12 months took place while the labor force was increasing sharply. At the end of 1954, with about 63½ million people in the civilian labor force, unemployment had fallen to a little under 3 million. During the spring and summer of 1955, the expansion of job opportunities drew many people into the labor market and the civilian labor force rose by about 4 million. Meanwhile, after a seasonal rise early in the year, unemployment declined to a little over 2 million by the end of the summer. At the year-end, after declining somewhat less than seasonally since summer, the civilian labor force totaled about 66½ million people, and there were about 2.4 million people unemployed * * * (p. 117).

The committee staff economists assume for purposes of their projections that unemployment in years not marked by war or severe recession should not be more than 4 percent of the civilian labor force, although other competent economists place the rate near 4.5 to 5 percent. Even though the percentage of the civilian labor force unemployed averaged 4 percent during 1955, as their staff projection reveals, the record level of total employment set in 1955 is all the more remarkable since instead of only an addition of 1 million to the civilian labor force, as the staff projected on the basis of average trends as calculated by the Bureau of Labor Statistics, the actual addition was 1,379,000, which represented an underestimate of one-fourth in the total number of people actually added to the labor force during the year.

This would tend to suggest, for years not marked by wars or recessions, that perhaps 4.5 to 5 percent of unemployment of the civilian labor force is more realistic a figure. Especially since, as noted in the President's 1956 Economic Report, the staff report and the majority report, the prevailing low levels of unemployment will tend to limit the rate of economic expansion in 1956.

Also, in ascertaining whether the economy fulfills the employment objective of the act in any year, it is important to consider the trend or "direction of movement" as well as the numerical levels attained. As the staff report points out:

> For example, some year which began with 2 percent unemployed and ended with 6 percent, may not represent achievement of the "maximum" employment goals even though the average unemployment was only 4 percent (p. 83).

Even by using 4 percent as the standard, as does the committee staff, the employment objective was achieved by the economy in 1955, since by quarters the percentage of the civilian labor force unemployed was 5.2, 4.1, 3.4, and 3.5. The magnitude of the upward employment trend during the latter part of 1955 is also revealed by the fact that even during December 1955, a month which experiences seasonal cutbacks in some industries such as farming and construction, a record new employment level of 64.2 million was established. This was 2.5 million more people than had ever been employed before during the month of December.

Thus, although 2.4 million were unemployed during December 1955, it should be remembered that these people were largely new entrants into the labor force, those in the process of changing jobs, and those shifting to new industries or occupations because of technological changes and developments. This is borne out by the President's 1956 Economic Report, which noted with respect to the composition of unemployment that:

> On the average, roughly half of those unemployed in any given month were no longer in that status in the following month * * * Unemployment declined the most among those unemployed the longest. * * *. The rate of unemployment among married men living with their families declined sharply, from about 3 percent at the end of 1954 to about 2 percent at the end of 1955 (p. 117).

But, as the President also called attention to in his 1956 Economic Report, "'structural' or 'spot' unemployment may remain even when the Nation's economy practically reaches full employment" (p. 61). In this respect, I am pleased to see the majority report give recognition to the President's recommendation for a comprehensive program to more satisfactorily deal with "excessive unemployment in economically depressed industrial areas" (p. 4). However, the economy made extensive gains even in this area, as indicated in the Area Classification Summary released in January 1956 by the Bureau of Employment Security of the Department of Labor:

> A year ago, at the beginning of 1955, the Bureau of Employment Security listed 44 major areas and 100 smaller centers as having relatively substantial unemployment * * *. By the beginning of 1956, however, only 19 major areas—the lowest number since autumn of 1953—remained on the surplus listing, while the number of smaller surplus areas had been reduced to 64 * * *.
>
> With only three exceptions (Biddeford, and Sanford, Maine; Long Branch, N. J.; and Ponce, P. R.), all of the major and smaller areas still classified as labor surplus reported some cutbacks in unemployment over the past year. Declines totaled an impressive 25 percent or more in 49 of the 83 large and small areas remaining on the surplus list; in 15 of these, jobless totals have dropped to less than half the year-ago level.

In summary, however, it must be concluded as the Executive Director, Dr. Grover W. Ensley, observed in his address to the 33d Annual Agricultural Outlook Conference—

> unemployment and unused industrial capacity are today near an irreducible minimum * * *.

The economy in 1955 not only met but substantially exceeded the employment objective outlined in the Employment Act of 1946. The majority report should have made this fact plain; that it did not do so is regrettable.

Purchasing power

As the Employment Act of 1946 suggests, one of the best indicators of economic activity is the aggregate income paid to people by industry, agriculture, and government. Of most significance from the standpoint of purchases of goods and services is "disposable personal income," which is that income people actually receive and can either spend or save. Concerning this indicator, the President's 1956 Economic Report observed that:

> Disposable personal income rose * * * by 14.4 billion dollars, to 269.2 billion dollars * * *, despite higher Federal tax payments associated with rising earnings and despite somewhat larger payments for State and local taxes. The income gains from 1954 to 1955 raised the per capita disposable income in constant prices by more than 4 percent * * * (pp. 107–108).

It should be noted that this $269.2 billion of disposable personal income which workers, farmers, professional and self-employed people, and proprietors received, was some $1.5 billion in excess of that which the committee staff projected as possible of attainment in 1955, if the objective of promoting maximum employment and production were to be achieved.

This record receipt of disposable personal income gave rise to personal consumption expenditures which also reached record proportions in 1955. In 1955, personal consumption expenditures rose by $16 billion to $252.4 billion. In this connection, the President's 1956 Economic Report noted that:

> The rise in consumer spending was not, however, a passive accompaniment of rising incomes. On the contrary, it was a highly dynamic factor in the process of economic expansion. Consumers were of a mind to buy better things and increase their spending. This pervasive attitude, combined with the willingness of women and young people to take on jobs so that their families might better approximate the plane of living they wished to attain has been an outstanding feature of recent experience * * *. The confidence in the economic future so dramatically displayed by them was likewise felt and displayed by businessmen and investors (pp. 23 and 25).

Although this rate of personal consumption expenditures, in relation to disposable income and personal savings, was in part made possible by a rapid expansion of consumer credit, it did not result in inflationary developments, since consumption of goods and services increased almost 6½ percent in real terms due to fairly stable consumer prices. This was the largest gain in real terms or constant prices since 1946. The 1956 Economic Report noted in this respect that:

> The vigorous expansion of economic activity during 1955 was accompanied by little change in the average level of wholesale or consumer prices. To be sure, the substantial stability of the price level reflected in some degree the opposite movements of industrial and farm prices in wholesale markets. However, the increase even in the average level of industrial prices was not large for a period of high prosperity. Because the overall change in prices was small, speculative accumulation of business inventories, such as has often led to economic recession in the past, was largely avoided last year (p. 41).

It was just a year ago in their supplemental views that the Democrat members of this committee, concluded that the—

> The President and the administrators of his economic programs seem unable to conquer their inflationary fears and to exhibit the kind of mature economic statesmanship on monetary policy which they advocate in the Economic Report (pp. 24–25).

Quite to the contrary of this "political" observation, the American people in no small part owe the gains they enjoyed last year in real terms—a 6½ percent increase and the largest such basic gain in economic well-being since 1946—to the "economic statesmanship" the President and his subordinates have exhibited since assuming office. For their decisions to ease credit restrictions in 1954 and to place restraints on borrowing in 1955, we can be grateful. However, prudent restraint and concern for the facts suggest, as the President called our attention to in the 1956 Economic Report, that—

> Final evidence of the effectiveness of recent governmental policies must * * * be sought in the economic annals that are yet to come as well as those for 1955 (pp. 40–41)

Installment credit, which was used principally in the buying of consumer durables, did increase $5.5 billion in 1955. Of this amount,

the Survey of Current Business, for January 1956, indicates that nearly $4 billion of the total increase was due to "the rise in automobile paper" (p. 2). However, although the total credit outstanding is currently higher relative to income than in previous years, all of this gain, as the Survey reveals, is—

> attributable to the installment credit segment, and more particularly to automotive paper * * *, and even in the case of nonautomotive installment debt, the ratio to income is only moderately above prewar (p. 3).

Such an extension of private debt to be paid out of future income has always been associated with the purchase of such durable goods which provide service over an extended period of time.

Although "monthly payments on the loans proceeded on schedule, and delinquencies were not only very low but even lower than in past years," as the 1956 Economic Report indicates (p. 26), prudence requires that further increase in the rate of consumer credit expansion be watched carefully. I find myself in agreement with the President's recommendation concurred in by the majority report, that—

> Although present conditions do not call for the use of * * * authority to regulate the terms of installment credit, this is a good time for the Congress and the executive branch to study the problem (1956 Economic Report, p. 94).

I believe, therefore, that although the majority report fails to note it, that a reasonably objective person would conclude that the economy in 1955 most certainly did achieve the objectives of the Employment Act of 1946 in achieving maximum production, employment, and purchasing power. As the President phrased it: "Full employment, rising incomes, and a stable dollar have been cherished goals of our society. The practical attainment of these ideals during 1955 was the year's greatest economic achievement." (1956 Economic Report, p. 13).

THE OUTLOOK FOR 1956

It is evident from what I have said that the gigantic rate of expansion which the economy made in 1955 cannot continue indefinitely. As the President indicated in the 1956 Economic Report:

> Under current conditions, the economic growth of our Nation is limited by industrial capacity and accretions to the labor force. When the economy has reached so high a level its near-term course is inevitably surrounded by a margin of uncertainty, and minor movements can occur without involving a change in general trend (p. 49).

This implies a *decrease in the rate* of expansion not in continued economic growth. It means a period of relative stability in economic expansion, and, as was the case in 1954—a good year, a lessened rate of expansion does not imply stagnation; rather a mixture of cumulative movements up and down as required by the needs of individual industries.

In this respect, I believe the remarks of Dr. Ralph J. Watkins in his presidential address to the 115th annual meeting of the American Statistical Association last December are worth noting:

> The conviction that catastrophic depressions can be avoided does not at all imply a belief that economic recessions are a thing of the past. Indeed, we can see that modern economic fluctations are part of the price of freedom. They are inherent in a free economy; inherent basically in that precious hallmark of a free society—freedom of choice; freedom to buy or not to buy; freedom as to what to buy; freedom of occupation and freedom of entry into business; and freedom in

the management of our farflung business system, composed of more than 4 million separate business concerns.

The business cycle is still with us and will continue with us so long as we remain a free economy and a free society, though we may properly continue our efforts at lessening the amplitude of economic fluctations and may well hope to achieve more and more progress as we learn more about the behavior of the economy and as our management skills are sharpened by experience.

It has become the vogue these days for certain economists to speak of adjusting the rate of economic growth downward "to a more sustainable pattern of balanced growth" and "of adjusting to a rate consistent with rising productivity and growth in the labor force, avoiding the excesses of inflation and rising prices on the one hand, or renewed recession and rising unemployment on the other," as does the majority report (p. 2). But it must be realized, as the President so emphatically told the American people in the 1956 Economic Report:

* * * the economic life of a dynamic people is full of cross-currents. No matter how rapidly the economy as a whole may be advancing, there are always some industries and areas that are standing still or even declining. Progress of technology is by its nature uneven; new products and new firms continually disrupt economic routine; shifts of demand keep occurring and recurring; foreign developments have widely divergent effects on domestic industry; and the weather itself is sometimes the arbiter over the lives and fortunes of people. These factors and many others like them diversify the economic life of a nation. If our economy is to continue growing, it will have to remain fluid and resilient, and broadly responsive to market forces (p. 51).

The American people can expect in 1956 a continuation of the mature economic statesmanship on the part of President Eisenhower and his responsible associates by using the extensive powers of the Federal Government in such a manner as to accomplish the objectives of the Employment Act by promoting maximum employment, production and purchasing power. As the President's 1956 Economic Report indicates:

The continuance of general prosperity cannot be taken for granted. In a high-level economy like ours, neither the threat of inflation nor the threat of recession can ever be very distant * * * If our economy is to advance firmly on the narrow road that separates recession from inflation, the Federal Government must pursue monetary, fiscal, and housekeeping policies with skill and circumspection. We must be alert to changes in economic conditions and be ready to adapt our policies promptly to them (pp. 11–12).

I should like to point out that in an election year the expedient but generally unwise thing to do is to follow the course of least resistance. This the Eisenhower administration did not do in 1955. As the President in his 1956 Economic Report observed:

Prompt and resolute governmental action to contain undue expansion requires courage and a willingness to focus on the less apparent and the longer-term interests of the economy (p. 43).

A continuation of this statesmanshiplike use by the President of governmental powers can be expected by the American people in 1956.

What then seems to be the outlook in 1956 for achieving the Employment Act objectives of maximum employment, production and purchasing power? The 1956 Economic Report concludes:

Taking recent developments all together, it is reasonable to expect that high levels of production, employment and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth (p. 49).

The committee staff's report indicates that the assumptions underlying the President's Economic Report and the budget imply a gross

national product of about $400 billion for 1956. This reinforces the President's observation that economic expansion in 1955 brought us to "the threshold of a $400 billion economy" (1956 Economic Report, p. III).

Measured in terms of constant fourth quarter prices, this would represent a 2.8 percent increase in the production of goods and services over 1955. It also is significant to remember that whereas a year ago, the economy began at a level *below* the long term average, it began in 1956 at a *higher* rate than the long term average.

A $400 billion gross national product may involve a somewhat lower rate of production and utilization of available resources in 1956 than prevailed in the *record* fourth quarter of 1955. But this projected economic growth in 1956 is consistent with the *long-term* trend of a 3 percent increase in the production of goods and services and the maintenance of an unemployment level of 4.5 to 5.0 percent of the civilian labor force which many economists believe is normal for the economy in years not marked by wars or recessions.

In a few words, if a $400 billion economy is achieved in 1956, the objectives of maximum employment, production, and purchasing power would without much doubt be achieved. It also is regrettable that the majority report does not make this fact plain; but in an election year, especially in light of the nature of the committee hearings that the Democrat members decided to hold this year, such an omission is understandable even if it is not justifiable.

AGRICULTURAL SITUATION

The one major segment of the economy in 1956 which did not enjoy economic prosperity as a whole was agriculture. The net cumulative movement represented by the industry was negative, and as the President observed in his Economic Report this year—

> * * * the position of farmers in our dynamic economy has aroused deep concern (p. 53).

Although the majority report findings and recommendations contain much merit, they ignore certain fundamental problems in agriculture which require extremely different solutions and types of public assistance than those recommended for agriculture as a whole. As long as the Congress continues to ignore these cleavages within agriculture, involving great extremes in the size and types of farms, it will continue to legislate inappropriate policies which merely treat the effects rather than the causes of these diverse income and production problems.

I do agree in general with the majority report's observation that—

> Because of the highly competitive nature of agriculture; because of the relatively inelastic demand for most agricultural products; and because of the national need for substantial standby productive capacity to meet the needs of increasing population and against the hazards of war and crop failure; agriculture as an industry will continue to present unique and difficult problems (p. 3).

However, if the Congress will enact realistic legislation tailored to meet the separate needs of the owners and operators according to the 1954 Agricultural Census, of our—

(1) 2 million larger commercial farms, mostly family-type farms who can benefit from price support programs, since they produce about 85 percent of the annual marketable crop value and receive about 80 percent of net farm income; and

(2) 2.7 million smaller family-type commerical farms, residential and part-time farms, as defined by the Census Bureau, who benefit but very little from price support programs, since they produce only about 15 percent of the annual marketable crop value, and receive about 20 percent of the net farm income—

I have no doubt but what in a comparatively short period of time, solutions can be found to "the unique and difficult problems" of these distinct groups of rural people.

Need for income data by economic class of farm

Our first step in formulating legislation which can treat the causes of these problems is to obtain meaningful annual farm income data by economic class of farm. It should be obvious that average and per capita farm income figures, derived by dividing the number of farms and farm people into a net income figure, are of questionable utility for policy determination. These figures represent the composite of: (1) the incomes of 2 million farms which comprise 80 percent of the net farm income, and (2) the incomes of 2.7 million farms, comprising only 20 percent of net farm income. This distorts all out of semblance to reality the farm income picture used for the purpose of shaping farm policies.

As the National Planning Association pointed out in its publication, Underemployment in Agriculture:

> Simple arithmetic will show what happens. Add the incomes of a group of "Medical science workers": $20,000 for a doctor; $8,000 for a laboratory technician; $4,000 for a nurse; $2,000 for a janitor. The average income for these "Medical service workers" is $8,500. Now by using this average, the facts are distorted in two ways:
>
> (*a*) The doctor's salary appears to be much lower than it really is; and
>
> (*b*) The low income at the bottom of the group is glossed over.
>
> Thus, when national averages involving all farmers are used, the commercial farmers are made out to have much lower incomes than they actually have, and the real poverty of the low-income group is technically covered up. Yet this system of averages has been the common practice (p. 5).

The Census Bureau defines a *farm* as 3 acres or more of land if the value of the products raised on that land amounts to $150 or more; or if it comprises less than 3 acres but the value of the products sold amount to $150. On the basis of this definition, the Agricultural Census of 1950 provided for the *first and only* time complete information on farm income by economic and other classes of farms as follows:

CLASSES OF FARMS—1950 AGRICULTURAL CENSUS

Commercial farms (3,706,412)

Class I. Those farms which sold produce valued at $25,000 or more (103,231).

Class II. Those farms which sold produce valued at between $10,000 and $24,999 (381,151).

Class III. Those farms which sold produce valued at between $5,000 and $9,999 (721,211).

Class IV. Those farms which sold produce valued at between $2,500 and $4,999 (882,302).

Class V. Those farms which sold produce valued at between $1,200 and $2,499 (901,316).

Class VI. Those farms which sold produce valued at between $250 and $1,199 (717,201).

Other farms (1,668,622)

Part-time, 639,230.

Residential, 1,029,392.

Total farms, 5,375,034.

Analysis of this data by economic class of commercial farm indicates that:

1. 1.2 million of the then existing 3.7 million commercial farms, mostly family type, comprising the first 3 economic classes of such farms, and containing 209.1 million acres of harvested cropland, produced farm products sold for $5,000 or more. Expressed another way, 22 percent of the total number of farms produced 74 percent of the total value of all farm products sold, utilizing 60.5 percent of the total harvested cropland.

The *average family income*, including both money and nonmoney income, of the 5 million persons living on these 1.2 million farms was $5,143. By comparison, the average family income of *all* farm families on farms that same year was only $2,650.

The average per capita income, including both money and nonmoney income, was $1,229, nearly twice that of *all* people on farms, which was only $651.

2. The other 2.5 million farms in the last 3 economic classes of commercial farms, containing 118.8 million acres of harvested cropland, produced crops sold for $4,999 or less. Expressed another way, 47 percent of the total number of farms produced only 24 percent of the total value of all farm products sold, utilizing 34.5 percent of the total harvested cropland.

The *average family income* including both money and nonmoney income, of the 10.3 million persons living on these 2.5 million commercial family-type farms was only $1,741—$3,352 less than the average of those families operating farms in the first 3 economic classes of farms and $859 *less* than the average family income of all farm families.

The average per capita income, including both money and nonmoney income, was only $430—$799 less than the average per capita income of persons living on farms in the first 3 economic classes of farms—and $221 *less* than that of *all* people living on farms, which was $651.

3. In addition, there were 1.6 million part-time and residential farms. These farms, representing 31 percent of the total number of farms, produced only 2 percent of the total value of all farm products sold.

It is evident from this analysis that income data in agriculture by economic class of farm are essential in evaluating the extent to which price-support programs aid farmers and raise prices and, therefore, incomes of the owners of farms in these different classifications. Obviously, two-thirds of our family-type farms produce so very little for sale that they cannot materially benefit from price support programs regardless of the level—75, 90, or 100 percent—of price support. No wonder average per capita farm income is but one-half that of nonfarm per capita income. Two-thirds of our farms contribute very little to total farm income, so the result is that their inclusion for purposes of farm income analysis makes average farm family and per capita income figures compare unfavorably with nonfarm income figures.

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On the other hand, it is obvious that the owners and operators of one-third of our farms, mostly family-type, who produce 85 percent of the annual marketable crop value are the people who benefit through the price support programs administered by the United States Department of Agriculture. Yet we have had many honest and sincere people advocating a 90 percent of parity price support program in the mistaken belief that it will raise net farm income and narrow the gap between per capita farm and nonfarm incomes.

How can such a program do this when, in the first place, it relates to only the so-called basic commodities, which provide farmers only 26 percent of net farm income? Furthermore, in order to get price support, a farmer must have something to sell, but two-thirds of our family-type farms simply do not produce for commercial sale in any significant amount.

If such price support legislative "mistakes" are to be avoided in the future, the Congress must have more accurate and meaningful income data. Lacking such data, the majority report understandably expresses alarm at—

> the continued decline in farm prices and agricultural income—

and concludes that—

> certainly the solutions thus far brought forward have not been adequate (p. 3).

Yet the authors of the majority report concluded ostensibly on such inadequate data that they were—

> largely persuaded by the extent of the recent decline * * *, [to] feel compelled * * * to accept * * * strong price supports (p. 4).

The lack of adequate farm income data prompted me to introduce, earlier this session, S. 3145, which would require the Bureau of the Census, in conducting its current population surveys, to include and publish annually money and nonmoney income data, relating to per capita and family farm income by economic class of farm. It is my hope that the Subcommittee on Economic Statistics of the Committee will, during the coming year, give attention to improving the compilation of agricultural income data along this line, and that the authors of the majority report will in their own words "weigh sympathetically" this "difference approach to a solution" of our farm income problems.

The stakes are too high and the welfare of too many people is involved for the Congress to enact or reenact laws such as the rigid 90 percent price support program on basic commodities, which instead of removing the causes only treat the effects produced by our two major problems in agriculture: First, the need for effective price support legislation for our commercial farms; second, economic aid programs of quite a different nature to assist the great bulk of our farm people who, because of the lack of adequate-sized farms, financial means, or technical knowledge, do not produce enough farm products for commercial consumption to derive any substantial assistance from price-support programs.

Agriculture is basically sound

In light of the current election-year discussion, about declining parity ratios, prices and farm income, it is very important that the American people view these matters in proper perspective. Although the cumulative movement of agriculture has been down, agriculture, as Secretary Benson has said many times, "is not on the rocks."

Commonsense and respect for the following basic facts concerning the soundness of agriculture, ought to guide the Congress in enacting farm legislation.

The *prices received index* did fall from 243 in January 1955, to 226 in January 1956—a drop of 16 points. But during the same period, *prices paid by farmers for production and family living* items, declined 7 and 1 points respectively, causing the *parity index* also to decline 2 points. Thus the *parity ratio* during the year fell 6 points from 86 to 80. Two significant facts emerge from these data. First, farmers as a whole did benefit from the price stability which prevailed during 1955, although the owners of one-third of our farms, mostly family-type which produce 85 percent of our annual marketable crop value benefited to a lesser extent, since, to a considerable degree, price stability was the result of the low prices they received. Second, commercial farms (in particular those in the first three economic classes of farms) as the 1956 economic report points out—

> * * * have been producing and are geared to produce more than could be commercially disposed of at supported prices (p. 54).

We should take notice of the fact that whereas the total value of all farm assets is some $163 billion, total farm debt is only $18 billion—some 11 percent of farmers' assets. Only 3 out of 10 farmers have mortgage debts and over 80 percent of all farms mortgaged are mortgaged for less than 50 percent of their market value—over one-half are mortgaged for less than 30 percent of their market value. However, the demands for credit have been increasing, especially among young farmers and those who operate smaller farms.

Seemingly, the best indicator for determining the *basic soundness* of any segment of the economy is the *trend* in the number of bankruptcy cases filed by different types of businesses. Cases involving farmers have accounted for exactly *six-tenths* of 1 percent of the total number of such cases for the past 5 years. In 1955, only 386 out of 59,404 bankruptcy cases involved farmers. This is all the more important when it is remembered that according to the Agricultural census of 1954 we had some 4.6 million farm operators.

Although the income positions of the owners of the one-third of our farms which produce 85 percent of our marketable crop value declined during 1955, those of the owners of the other two-thirds of our farms were virtually unaffected by the decline in farm prices because they produce so very little for sale—about 15 percent of our marketable crop value. However, evidence that the net-income picture of the owners of our largest commercial farms, mostly family-type, which produce the bulk of our farm products, is good and that in general they have shared in the prosperity enjoyed during 1955 is found in the majority report recommendation that endorses—

> the President's proposal for a dollar limit on the size of payments or support loans to any one individual or farming unit (p. 4).

For example, the 1950 Census of Agriculture revealed that:

1. 484,000 of the farms, mostly family-type, in the first 2 economic classes of farms—those producing crops sold for $10,000 or more—produced 51 percent of the total value of all farm products sold and received 23 percent of the total net farm income.

The average family income provided by these farms was $6,585, nearly 2½ times that of all farm families. The average

per capita income of people on these farms was $1,594; also about 2½ times that of all people living on farms.

2. At the other extreme, about 16 percent or 717,201 farms in the sixth and last class of family-type commercial farms—those producing crops sold for more than $250 but less than $1,200—produced only 2.3 percent of the total value of all farm products sold and received 5 percent of the total net farm income.

Average family and per capita incomes were only $975 and $254 respectively; these also were $5,610 and $1,340 respectively *below* those enjoyed by people living on farms in the first 2 economic classes of farms.

The owners or operators of these 484,000 farms, mostly family-type referred to in point 1, are, and have been, receiving the largest subsidies under the price support program. One private research organization recently reported that 1.9 percent of our farmers received 25 percent of the price support subsidy in 1953.

The largest loans made under the price support program, however, are those made to corporation, not family-type farms. For example, in 1953 the largest wheat loans were made to:

1. The Harrigan Farms of Prosser, Wash., which placed 152,840 bushels under loan, in the amount of $354,339.

2. The United States Wheat Corporation of Hardin, Mont., which placed 184,516 bushels under loan, in the amount of $348,646.

I should also like to point out that 1,468 loans over $25,000, with a total loan value of $63,437,759, were made on the 1953 wheat crop. The average loan value was $43,214.

At the other end of the price-support ladder, 554,058 loans under $5,000, but totaling $713,517,921, with an average loan value of $1,288, were made by the Commodity Credit Corporation.

With respect to corn, the largest loans on the 1953 crop went to:

1. Adams Bros. & Co. of Odebolt, Iowa, which placed 124,800 bushels of corn under loan at a face value of $190,944.

2. Emil Sovich, of Rensselaer, Ind., who placed 102,648 bushels under loan in the amount of $166,289.76.

On this corn crop, the Commodity Credit Corporation made 104 loans over $25,000, with a total loan value of $3,575,440. The average value of these 104 loans was $34,379.

At the other end of the subsidy ladder, 283,605 loans under $5,000 in value, but totaling $503,449,500, were made. These loans average $1,775.

The magnitude of the subsidy program to large operators is revealed by table 3 of the USDA's January 1956 publication, Summary of Sample Survey of Size of Major 1953 Crop-grain Loans.

TABLE 3.—*Number of loans, total loan value and average loan value, 7 major 1953 grain crops*

Grain crop	Under $5,000	$5,000–$10,000	$10,000–$25,000	Over $25,000
Wheat:				
Number of loans	554,058	26,184	9,496	1,468
Total loan value	$713,517,921	$171,245,681	$130,731,400	$63,437,759
Average loan value	$1,288	$6,540	$13,767	$43,214
Corn:				
Number of loans	283,605	10,842	957	104
Total loan value	$503,449,500	$69,913,395	$12,357,165	$3,575,440
Average loan value	$1,775	$6,448	$12,912	$34,379
Oats:				
Number of loans	42,845	408	59	10
Total loan value	$32,307,931	$2,763,937	$814,485	$271,984
Average loan value	$754	$6,774	$13,805	$27,198
Barley:				
Number of loans	33,185	518	183	66
Total loan value	$29,817,683	$3,559,516	$2,772,665	$6,364,144
Average loan value	$899	$6,872	$15,153	$96,424
Sorghum:				
Number of loans	30,753	1,643	401	25
Total loan value	$38,910,506	$11,863,572	$5,783,510	$1,002,869
Average loan value	$1,265	$7,221	$14,423	$40,115
Soybeans:				
Number of loans	59,717	746	56	5
Total loan value	$71,089,904	$5,108,484	$976,860	$189,082
Average loan value	$1,190	$6,848	$17,444	$37,996
Flaxseed:				
Number of loans	56,907	562	56	18
Total loan value	$52,781,564	$3,362,395	$762,906	$520,361
Average loan value	$928	$5,983	$13,624	$28,909

The lack of a limit upon the amount of price support assistance a farmer can receive gives, in my opinion, unnecessary financial assistance to a great many owners of the larger commercial farms, although mostly family-type, and especially the 103,231 farms in the first economic class of farms, which in 1949 produced 26 percent of all farm products sold and each of which produced products valued at $25,000 or more. I introduced, therefore, S. 3126, which provides that price support is not to be made available during any calendar year with respect to the products of any one farm of a total value, determined on the basis of the support price, in excess of $50,000.

While it is clear that during certain periods even these farms may need some price support assistance, it is equally clear that many of these farms simply do not need *unlimited* price support assistance. Many of these farms, year in and year out, will return to their owners, net incomes much higher than 90 percent of our people ever hope to receive. This they would do even if they never received a dime in price support subsidy.

This can be done by those who operate the more profitable farms and who know how to apply to their lands just the right amount of labor and machinery and to produce the largest possible volume at the lowest possible cost per unit of output. This type of farming, of course, results in the highest gross income possible of achievement with their particular size of farms.

Price support policy

The decline in the *prices received index* from 302 in 1951 to 223 in December 1955, primarily has resulted from several factors which have enabled our larger commercial farms (mostly family-type)—some 1.2 million—to produce more than consumers could remove from

the market at fair prices. One of these factors has been the maintenance of a rigid 90 percent price support program on the basic commodities—wheat, corn, cotton, rice, peanuts, and tobacco. Application of high rigid price supports in conjunction with the acreage allotment and marketing quota production control programs, in effect on these crops, has utterly failed to bring the supply of those commodities into line with effective demand, and, to raise, thereby, farm prices and incomes.

The 1956 Economic Report calls attention to the fact that:

> Government restrictions on acreage of several crops, notably wheat and cotton, have insufficiently curtailed production of these crops and have led to expansion of others. Huge carryovers have piled up, far beyond liberal estimates of desirable reserves. Government holdings acquired under price-support programs have kept rising, in spite of intensive and effective efforts to dispose of surpluses * * *.
>
> The production-control programs that have been operated for basic commodities, which account for [only] about one-fourth of the total income from farm marketings, have indirectly contributed to lower incomes for the producers of other important commodities. Farmers with acreage diverted from basic crops have deemed it more profitable to produce feed grains or other crops, even at lowered support prices * * *. Many have expanded their hog and beef cattle numbers to use the additional feed thus produced, adding further to the expansion induced by relatively favorable livestock prices in earlier years * * *. These factors have been largely responsible for lower prices of beef cattle and sharply lower prices of hogs in 1955, and a continued increase in production of dairy products.
>
> Unrealistic supports have * * * overstimulated production of several basic products in this country * * * (pp. 54, 56, and 57).

How large are these surpluses of basic commodities? As of December 31, 1955, the Commodity Credit Corporation had the following quantities of these commodities valued at $5,302,338,317 in its inventories:

Wheat, 888,542,189 bushels, valued at	$2, 399, 042, 201
Cotton, upland, 7,920,833 bales, valued at	1, 437, 071, 012
Corn, 757,612,049 bushels, valued at	1, 300, 322, 952
Rice, 15,387,444 hundredweight, valued at	175, 902, 152
Total	5, 302, 338, 317

Other commodities whose outputs were increased by production on lands diverted from basic commodities, under the allotment and marketing quota programs, accounted for CCC inventories as follows:

Commodity	Inventory amount	Value
Cheese, pounds	333, 001, 929	$131, 250, 285
Butter, do	166, 398, 824	100, 684, 683
Grain sorghum, hundredweight	20, 452, 382	77, 378, 838
Barley, bushels	31, 261, 403	43, 969, 463
Oats, do	35, 258, 232	29, 987, 599
Dried milk, pounds	161, 713, 453	28, 216, 338
Rye, bushels	3, 905, 906	5, 390, 331
Other		182, 455, 434
Total		599, 329, 971

What have been the costs of programs conducted by the Department of Agriculture primarily for the stabilization of farm prices and incomes on basic commodities? For the fiscal years 1932–55, the total realized net cost was $5,632,700,000, although these commodities were sup-

ported at 90 percent of parity only during the years 1942–54. By commodity they were as follows:

Corn	$1,319,300,000
Cotton	1,602,900,000
Peanuts	166,500,000
Rice	29,300,000
Tobacco	101,800,000
Wheat	2,412,900,000
Total	5,632,700,000

In light of these facts, it would seem highly imprudent to reenact a 90 percent price support program on basic commodities. High rigid supports have not facilitated adjustment of production to effective market demand; and being applicable to only the basic commodities which provide commercial farmers with only 26 percent of their income, they cannot materially raise farm prices or total net farm income.

But by the same token, a flexible price support system cannot demonstrate the degree of ability it may have to help commercial farmers adjust production any better, as long as these large surpluses overhang the market. Whether the flexible price support program will be as successful as anticipated or not, depends upon removal of these surpluses and a fair trial. A partial year's test under present supply and inventory conditions in no way approximates such a trial, and this should be clearly understood by the American people.

In light of this fact, I concur in the finding expressed in the majority report, that—

> we must accept the expedient contained in the President's Economic Report for a soil bank as a desirable aid in helping avoid further additions to our already large surpluses (p. 4).

However, if the soil bank proposal is to be effective in reducing surpluses by facilitating production adjustment downward, it seems essential that certain changes be made in the conditions of eligibility for assistance under the price support program and the agricultural conservation program.

It appears to me that the Secretary of Agriculture should be given *permissive* authority to require that farmers participate in the acreage reserve program in order to be eligible for price support. The acreage reserve program certainly will fail to produce the desired results unless participation by the commercial farmer in the cotton, corn, wheat, rice, and tobacco producing areas is very substantial. At a time when we have almost unprecedented Commodity Credit Corporation inventories of these commodities, it appears essential that the Secretary should have a sanction at hand to induce substantial participation in the event the rates of payment are not high enough to accomplish this basic objective. Unless the commercial farmers, who benefit from the price support programs, participate, the program will fail to materially reduce surpluses—the objective of the acreage reserve program.

Likewise, if the owners of large commercial farms are going to continue to get payments for carrying out conservation practices under the agricultural conservation program, which result in increased yields and a greater total output of cotton, corn, wheat, rice, and tobacco, they ought to be required to participate in the acreage reserve program.

It is sheer nonsense and a waste of public funds, on the one hand, to pay out money to increase production and then not to require participation in an acreage reserve program which has, as its objective, the reduction of cotton, corn, wheat, rice, and tobacco production.

For the same reason, any farmer who knowingly harvests any acreage of a basic commodity—wheat, cotton, corn, rice, tobacco, and peanuts (all of which, except peanuts, are eligible for the acreage reserve program)—in excess of his acreage allotment should not be eligible to receive payments under the agricultural conservation program. The only exceptions to such a provision should be in those cases in which:

1. A farmer has an acreage allotment of less than 15 acres, since under the marketing quota provisions of the Agricultural Act of 1938, as amended, a farmer with a wheat acreage allotment of less than 15 acres of wheat without penalty.
2. A farmer grows corn for ensilage, since it is consumed on the farm.
3. A farmer grows peanuts for seed to be planted to peanuts to be grazed by hogs on the farm.
4. Farmers have rejected marketing quotas in a referendum, since adequate penalty in the loss of maximum price support assistance is provided in the law.

The basic reason for requiring that commercial farmers (mostly family-type) must comply with acreage allotments in order to receive assistance under the agricultural conservation program is to provide an added sanction to induce compliance with production controls so that production can more nearly be brought into line with demand. Although production controls at best are not too effective in bringing and keeping supply in line with demand, it is important in light of the big surpluses on hand of basic commodities that they be reinforced by such a sanction. This is especially true with respect to the commercial farms owned by one-third of our farmers who produce 85 percent of our marketable crop value and who receive 80 percent of our net farm income.

However, I do agree that such a sanction should not apply to our small family-type farms—especially those having wheat and corn acreage allotments of less than 15 acres. But I cannot agree that it should not be made applicable to the large commercial farms (also mostly family-type) though fewer in number but which produce the bulk of our food and forage crops. Specifically, my reasons for this are:

1. If public funds are to be used to increase the productive capacity of these commercial farms as is the case with respect to the agricultural conservation program, while at the same time the Government is obliged to support the prices of the crops in question, then the public interest certainly requires that adequate sanctions be imposed which will work toward the goal of keeping supply in line with demand.

That the bulk of payments now made under the agricultural conservation program are for practices which primarily increase output rather than build the soil, as do more permanent type practices, is revealed by table 5 of the Summary of the Agricultural Conservation Program for 1953 published by the USDA. In 1953, 42 percent of the $185 million farmers received was spent for fertilizer and inorganic materials—limestone, phosphate, and potash. Another 14 percent was used for protective manure crops.

2. If we want to really advance soil conservation on lands devoted to the growing of soil depleting crops, then commercial farmers, family-type or not, if they are to be eligible for such financial assistance on such crops—and they are the crops in question here—should be required to observe acreage allotments. In this respect, it should be noted that from 1936 to 1944 the USDA paid farmers $1,666,300,000 under the agricultural conservation program to withdraw soil-depleting crops, including those here in question, from production. Farmers were given an acreage allotment, and if they kept within that allotment, they received an agricultural conservation program payment.

That such a practice was more of a permanent soil conserving nature than most of those for which farmers are compensated today under the agricultural conservation program, cannot be disputed. As Rainer Schickele, former Chairman of the Agricultural Economics Department of North Dakota Agricultural College, has so ably stated in his recent book, Agricultural Policy:

> * * * the public interest is concerned primarily with erosion control, with keeping the topsoil in place, because it constitutes the nonrenewable fund resource of the soil. Fertility maintenance, better farm use of water, and maintaining forages are essential only insofar as they are needed to control erosion. The ACP objective fails to make this important distinction. Consequently, a certain proportion of the available funds is used to pay for practices on land which would not have been permanently damaged if these practices had not been performed * * *.
>
> There can be no question that a *considerable part of the ACP payments are being made for practices on land where those practices are not necessary for the public interest in soil conservation.*
>
> * * * If the funds now disbursed on lands not subject to erosion could be shifted over to unprotected erosible lands, the effectiveness of the program could be substantially increased. We, as a nation, would get more real soil conservation per tax dollar spent than we are getting now (p. 104).

Contrary to the opinion of some people with respect to this matter, it is evident that *not to require compliance* with acreage allotments on soil depleting crops as a condition for receiving ACP payments on farms having an allotment of over 15 acres would *result in less conservation* worthy of the name, than would otherwise be the case.

Experience also indicates that the Secretary of Agriculture should be required to obtain certifications from processors that the producers of agricultural commodities, for which any price support or surplus removal operation is carried out through purchases from, or loans or payments to processors, have been paid for their product:

1. Not less than the support price therefor; or
2. In the case of commodities for which no support price has been established, such price, but not less than 75 per centum of the parity price, as the Secretary finds necessary to provide a reasonable return to such producers.

In the latter case, it is necessary to require that 75 percent of the parity price to be paid producers in the case of commodities for which no support price has been established, because title III of the Agricultural Act of 1949, as amended, provides that for commodities other than the basics (wheat, cotton, corn, rice, peanuts, and tobacco) and the designated nonbasics (wool, including mohair; tung nuts; honey; milk, butterfat, and the products of milk and butterfat) that the level of support, depending upon supply conditions, shall not be less than 75 percent of parity.

It does a farmer very little good to have the Department of Agriculture through expenditure of Commodity Credit Corporation funds, or section 32 funds, purchase commodities through surplus removal operations unless—

1. A support level as a percentage of the parity price of the commodity is set by the Secretary of Agriculture.
2. And processors are required to certify that producers have been paid that price.

It would seem much wiser not to institute such purchase programs unless it is evident that producers, for whose benefit they are initiated in the first place, will actually benefit pricewise. The Department of Agriculture has realized a net cost of $1,804,100,000 in carrying our surplus removal programs since 1932, and such programs are the major method the Department of Agriculture relies upon to support perishable commodities. To spend millions of dollars in surplus removal operations, without a support level being announced and which does not result in the improvement of market prices, can only lead to bitterness of feelings on the part of producers toward both the processors and their government.

Expanded research programs

The President requested an increase of 25 percent in research funds so that for the 1957 fiscal year $103 million will be available not only to carry out the usual research activities of the Department but to expand research relating to the development of *new uses, new markets, and new crops.*

During the fiscal years 1948–55, the Department of Agriculture spent $47.0 million in marketing and related economic research, and State agencies spent some $9.8 million under the Research Marketing Act during the same period. Now I am in complete agreement that we—

> must further improve our marketing mechanism * * * so that the benefits of our abundance may be still more widely distributed—

as the President stated in his special agricultural message. But I am also convinced that mere improvement of the marketing mechanism—a real boon and subsidy to the processing, transportation, wholesale and retail food industries—does not necessarily mean that (1) resulting lower marketing costs are passed on to the farmer in the form of higher prices or lower handling costs (quite to the contrary, I suspect that most of this "saving" finds its way into the profits account) and (2) the total demand is increased for the commodity in question whose marketing costs are lowered.

As much is implied by the President's statement in his special agricultural message that—

> Marketing margins have continued to increase, even while farm prices have been declining. Thus the farmer's share of the retail food dollar has shrunk appreciably. Retail prices have changed little, thereby impeding desired increases in consumption. We must find ways to lower costs of food distribution.

Now it may be that lower marketing costs resulting from marketing research carried out by the Department of Agriculture at a cost of $56.8 million during the past 8 fiscal years have been swallowed up by increased labor and transportation costs. But, as I have watched the press releases from the Department over the past few years,

announcing the results of many of these "marketing research projects," it is difficult for me to see how some of these findings could result in (1) any material increased demand for the commodity in question, or (2) higher returns to farmers.

Research undoubtedly is an effective way to help attain the goal of lower costs of food distribution, but it should not be carried out by the Department of Agriculture if it will not help farmers sell more for a higher return. I, therefore, urge the committee during the coming weeks, as part of its proposed inquiry into the "cost-price squeeze in agriculture," to study the effect the results which specific marketing research projects have had upon the total demand for the commodity in question and prices paid farmers as a result.

During the 1930's, chemurgy seemed to hold out much hope for the diversion of substantial quantities of food and fiber products into industrial and other nonfood uses. A program of vigorous basic and applied research may turn up heretofore undiscovered nonfood industrial uses, but based upon our experience over the past 15 years, the prospects seem not too bright. The following seem to be the major obstacles to date:

1. Food and feed crops are relatively more expensive sources of raw materials than other available materials.
2. Not infrequently their use in manufactured products involves greater costs than use of competing materials.

For example, surplus wheat is our number one commodity problem as measured by the bushel quantity and dollar value of Commodity Credit Corporation inventories: 888,542,189 bushels valued at $2,399,042,201. Yet its use for the manufacture of industrial alcohol, its principal nonfood and feed use, has not been very extensive. Before 1940, little or no wheat was used for this purpose. But by 1943, even when it was difficult to get natural raw materials due to wartime shortages, only 107 million bushels out of a production of 1,060 million bushels that year were used in the manufacture of industrial alcohol. Each year since then, the quantity of wheat diverted to this use has progressively declined in spite of cheaper wheat prices. In 1954, industrial alcohol production utilized an insignificant 62,000 bushels of wheat.

At the moment, *new crops* development research seems to be the front which offers the greatest promise for more efficient utilization of resources in agriculture now being used to produce quantities of some crops greatly in excess of demand. Dr. Byron T. Shaw, Administrator of the Agricultural Research Service of the Department of Agriculture, recently said in a talk entitled "New Crops Research":

> Americans have been on the lookout for new crops since the beginning of our history * * *, advances in every one of our major crops have come as a result of this continuous search for plants of the same or related species for use in improving varieties * * *. Some of our greatest opportunities, both for stabilizing farm production and opening up new markets in industry, will be found through research on crops we're now growing.

In this respect, as President Eisenhower said in his special agricultural message:

> We must find new crops offering such new opportunities and benefits as are exemplified by soybeans and sorghums.

New crops should mean the diversion in some areas of acreage out of the production of crops now in surplus, resulting in more economic and

profitable use of capital and labor. However, much of the development of new and improved crop plants depends upon plant breeders having at their disposal adequate stocks of many different kinds of plants, both foreign and domestic, both wild and cultivated. Although these plants in themselves may not have much agricultural value, they often contain valuable genetic characteristics that plant scientists can use in developing commercial varieties.

Such improvements require the blending into new plants of superior genes. New genes or germ plasm cannot be created—the breeder must work with those that occur in those plants he has on hand. This expanded research leading, we hope, to new crops, which the Department of Agriculture is undertaking, in cooperation with State colleges and private institutions, will without doubt require a vastly expanded bank of germ plasm. To have such *parent plants* or *seeds* when they are needed, they must be preserved in quality and quantity in needed geographical areas which are suited to storage and readily accessible to plant breeders. Although present Federal and State experiment stations are doing the best they can to preserve these plant and seed stocks that can be used in the foreseeable future, they have neither the space nor facilities for holding seeds over a long period.

Because of this fact, I recently introduced S. 3095 which, if enacted into law, would direct the Secretary of Agriculture to establish and operate a "national seed storage facility." The purpose being to collect, store, and preserve seed and plant stocks for future needs. It would serve to facilitate cooperation between the Department of Agriculture and other public and private agencies, organizations, institutions and persons in new crop research. An authorization for needed appropriations is also included in the bill.

More recently in this connection, the Grain Research and Marketing Facility Committee of the Department of Agriculture at the conclusion of its annual meeting observed:

> Agriculture needs a national seed storage facility to extend the years of vitality of reserve seed stocks.

I hope the committee as it pursues its work this year will give consideration to new crop research and the need for such an expanded seed storage facility in connection therewith.

Small farms and low-income areas

Although the majority report calls for—

> comprehensive programs to assist small and low-income farmers by way of credit facilities, technical assistance, enhanced industrial opportunities, and otherwise * * * (p. 4)—

it by and large seems to assume that "low prices" explain farm poverty, since undue emphasis is placed upon the decline in farm income. This simply is not the case. Although farm prices have declined, and with them net farm income, this has had little effect upon the financial position of the "low income" farmer. By the same token, "strong price supports," rigid 90-percent price supports, or a 75-to-90 flexible price-support system, will not materially improve his income position. As the National Planning Association's publication, Underemployment in American Agriculture, so vividly points out:

> * * * raising prices won't eliminate poverty on a farm which doesn't produce enough of anything to sell. If a farmer raises a hog and has to eat it to live, it makes no difference whether he could have sold it for $10 or $40. Price supports do not produce hogs" (pp. 16–17).

Direct observation will also disprove the low price theory of farm poverty. In this connection it should be noted, according to the 1950 Agricultural Census that 1.6 million commercial family-type farms in the fifth and sixth economic classes of farms (selling between $250 and $2,500 worth of produce) produced in 1949 only 9.7 percent of all farm products sold. By comparison the 103,231 commercial farms in the first economic class of farms (mostly family-type and selling $25,000 worth or more) produced 26 percent of all farm products sold. These 103,231 most efficient and productive commercial farms provided average family incomes of $10,200; by comparison again, 1.6 million poorest and smallest commercial family-type of farms in the fifth and sixth economic classes provided average family incomes of only $1,900 and $975.

It should be evident, as I pointed out in my supplemental views to the 1955 committee report, that—

> * * * the problems associated with lifting the levels of living of about two-thirds of our farm people who live on farms which, for one reason or another, are uneconomic units, have not been and can never be solved through price-support programs (p. 65).

It is, in my opinion, plain demagoguery for politicians to tell the owners of small-sized farms working "tired" lands that high price supports will solve their income problems. It simply is not so.

Very plainly we have two major categories of farms in the United States; each with different problems which require for solution different types of public policies. Farm prices and the need for price support are of major concern to only the owners of the larger commercial farms, as a commercial farm (mostly family-type) is defined by the Census Bureau. Public agricultural policy simply has not given adequate recognition to the fact that the problems confronting the owners of the smaller and less productive family-type commercial farms, as well as many part-time farms, are totally different, and require different solutions.

For most of these people living on small rural farms a *noncommercial family-type farmers' program*, as a new aspect of public agricultural policy, is urgently needed. The rural development program initiated by Secretary Benson last year, if given adequate congressional support, which has not been forthcoming to date, has all the earmarks of developing into just such a program. In any event, the solutions to the problems of the low-income farmer require different approaches or combinations of approaches.

Many owners and operators of fifth and sixth class commercial family-type farms in particular can benefit from more *liberal long-term credit policies* coupled with intensive assistance along technical farming lines from the Federal and State Extension Services and other Federal and State agencies.

More easily attainable credit would enable many such farmers to expand their farms to a size which could return to them and their families a decent level of living. For a great many other farms, lack of opportunity to acquire adjoining farmland, rather than lack of capital to purchase such lands, constitutes the "size of farm" problem. For others the need is for credit on liberal long-time terms to be used for the purchase of equipment, buildings, livestock, and so forth.

It was because of a firm conviction that the financial position of many farmers actually prevents their being able to become more pro-

ductive farmers that I introduced recently two bills, S. 3184 and S. 3185 which would authorize the Secretary of Agriculture, through the Farmers' Home Administration, to extend credit on more liberal terms to worthy farmers who cannot obtain it from private sources and who have the potential to repay such loans. Similar legislation was introduced by Senator Carlson.

S. 3184 would permit the Farmers' Home Administration to:

1. Make or insure loans for the purpose of refinancing, consolidating, renewing, or extending all, or part, of the existing debts of the applicant for farm operating and subsistence expenses, whether secured or unsecured by real or personal property.

2. Such loans are to be made to farmers operating family-type farms who are unable to repay their existing indebtedness in accordance with present repayment schedules and who cannot secure refinancing through private or cooperative sources on terms that they could be expected to meet under present circumstances.

3. Such loans are to be repaid when it appears that the borrower can obtain a loan from cooperatives or private sources, including the local loan associations and production credit associations under the terms borrowers can meet.

4. Such loans are to carry such interest rates and conditions of repayment as the Secretary of Agriculture deems advisable under the circumstances, provided, however, that the total principal indebtedness of a borrower shall not exceed the fair value based on earning capacity or the normal market value of the farm.

S. 3185 would extend the term for repayment of any such loan from the present maximum of 7 to 11 years.

Others will find the solution to their economic problems through a combination of part-time farming and nonfarm employment, as many have done in increasing numbers during the past few years, even if the latter provides most of their income. Evidence of this is found in the fact that the number of part-time farmers increased by 32,008 during the past 5 years, as disclosed by a comparison of the 1950 and 1954 Agricultural Censuses.

Whereas in 1940, only $2.7 billion of farm income *from all sources* was derived from *nonfarm sources*, $6.1 billion was derived in 1955. In 1946, our first postwar year, 20.5 percent of farm income *from all sources* was derived from *nonfarm sources;* by 1955 this had increased to 32.2 percent.

We have witnessed, as far as this problem is concerned at least, growing industrialization in the Southern States, where 6 of our 9 major low-income farm areas are located. Other things being equal, the South undoubtedly will continue its industrial advancement, since one of the area's most attractive features is the existence of considerable manpower which is now underemployed on small-sized and unproductive farms.

Mr. Don G. Mitchell, chairman and president of Sylvania Electric Products, Inc., was one witness at the automation hearing held last October by the Subcommittee on Economic Stabilization, who expressed the opinion that part-time farming combined with nonfarm employment offered real opportunities for underemployed farmers. In response to the questions as to whether the future held growing

opportunities of this nature; and whether many farmers had gradually been absorbed in plants such as Sylvania's in the Midwest and South, Mr. Mitchell replied, "Yes, sir" to the first, and answered the second by saying:

> We employ a lot of them. Some of them are part-time truck gardeners when they go home at night, but they don't consider themselves farmers any more. They consider themselves industrial workers and would be so classified * * *.
> We give local plants their local choice as to what hours they would like to work. We open many of our plants in farm areas at 7 o'clock in the morning, so they can get through at 3 in the afternoon, and then they go home and farm after that * * *.
> It is not possible in very many instances to run your plant only during those months when he cannot farm. We have to run our plants through the year. We do these other things of starting at 7 o'clock and getting through at 3. He probably cannot be a full-time farmer from 3 to until 8. (Automation and Technological Change, hearings, pp. 194–196).

What effect has such off-the-farm employment had upon the incomes of part-time farmers? The 1950 Agricultural Census provides the answer:

1. The average family income and per capita income of the 2.5 million people living on 639,230 "part-time" farms were $2,400 and $600, respectively. Their average family incomes were only $250 less than the average family incomes of all families living on farms, and their average per capita incomes only $51 less than the average of all persons living on farms;

2. Their average family incomes were $500 *more* than those of the 3.8 million persons living on 901,316 "full-time" family-type farms in the fifth economic class of commercial farms; and $1,425 *more* than those of the 2.7 million persons living on 717,201 "full-time" family-type farms in the sixth economic class of commercial farms;

3. Their per capita incomes were $146 and $346 more, respectively, than persons on family-type commercial farms in the fifth and sixth economic classes;

4. Their family and per capita average incomes were only $100 *less*; and

5. In the case of average family incomes, theirs were only $100 less than those enjoyed by the 3.8 million persons living on the 882,302 "full-time" family-type farms in the fourth economic class of commercial farms, but their average per capita incomes were actually $1 higher.

Still other people will derive better incomes only by leaving agriculture entirely. This voluntary exodus from agriculture will attract many younger people, who because of the lack of adequate capital required to begin a successful farming operation, must look elsewhere for their livelihood. For these, 4–H Club and other educational programs provided by State extension services and other agencies for rural youth need to stress vocational training which can lead to gainful nonfarm employment.

Older people living on marginal farms will not want to leave, in spite of the low level of living such farms provide them. Here an extension of rural social services may materially contribute to a better level of living for these people.

And we must not lose sight of the fact that others would rather go on living the kind of lives they are, than trade them for any other, not because they are disturbed by lack of material goods and services—

larger incomes if you please—but because they like their lives as they now are. This, they too, should be free to do; "man is that he might have joy."

Summary

We are making progress in this agricultural area; it has been slow but the future for these people, if a *real noncommercial family-type farmers' program is developed* and maintained, will be much brighter.

However, from what I have said, it is evident, that for the purpose of price support policy and for realistic comparisons of farm and nonfarm income, the incomes of the so-called low-income farmer should not be included. Their inclusion not only has, but will continue to distort the facts and produce public agricultural policies which will continue to provide some farmers unnecessary financial assistance and which will provide little or none to those in greatest need.

And I want to conclude by emphatically stating that whether people leave agriculture or not, they should do so of their own free choice. At the same time, it should be understood that public price-support programs do not drive people from agriculture, although high rigid 90 percent price supports may cause some family-type farmers on the *margin* to linger on longer than their best interests would seem to dictate.

OTHER MAJORITY REPORT FINDINGS

At this time, I must also reserve, as Congressman Talle put it in a footnote to the 12th recommendation of the majority report, "final judgment on the merits of United States participation" in the Organization for Trade Cooperation. I must also express the view, that the safeguards against domestic injury which the Subcommittee on Foreign Economic Policy recommended in its report (S. Rept. No. 1312, 84th Cong., 2d sess.) with respect to the escape clause, are entirely inadequate and if adopted would serve to further render that device ineffective.

The majority report's findings on tax policy mirror the President's recommendations and, therefore, I find myself in substantial agreement. [Again this year, I want to express publicly my appreciation to the executive director and the other members of the committee staff for their expert and kind assistance.]

ARTHUR V. WATKINS.

THE ECONOMIC OUTLOOK FOR 1956 AND OTHER MATERIALS

Prepared for the
Joint Committee on the Economic Report
by the
Committee Staff

73739°—56——6

LETTER OF TRANSMITTAL

FEBRUARY 16, 1956.

Hon. PAUL H. DOUGLAS,
United States Senate, Washington, D. C.

DEAR SENATOR DOUGLAS: Transmitted herewith are committee staff materials on the economic outlook for 1956. These materials, as in previous years, attempt to quantify the "foreseeable trends" of economic activity for 1956 which the committee staff believes are consistent with the outlook assumptions of the President's Economic Report and budget.

Also transmitted is a staff review of materials on the economic outlook for 1955 submitted a year ago and attached to the committee's annual report to the Congress (S. Rept. No. 60, 84th Cong., 1st sess.).

While it is necessary to use detailed and precise figures in preparing economic projections which are internally consistent, it must be emphasized that the purpose of such projections is to show the general order of magnitude and direction of possible major economic developments on the basis of stated assumptions.

Sincerely yours,

GROVER W. ENSLEY,
Executive Director.

THE ECONOMIC OUTLOOK FOR 1956

SUMMARY

As in previous years, the committee staff has attempted to quantify "current and foreseeable trends in the levels of employment, production, and purchasing power," consistent with the assumptions of the President's Economic Report and budget, and such levels needed to carry out the objectives of the Employment Act. The key statement in the Economic Report concerning prospects for achieving the Employment Act goals in 1956 appears to be the following:

> Under current conditions, the economic growth of our Nation is limited by industrial capacity and accretions to the labor force. When the economy has reached so high a level its near-term course is inevitably surrounded by a margin of uncertainty, and minor movements can occur without involving a change in general trend. Taking recent developments all together, it is reasonable to expect that high levels of production, employment, and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth.[1]

This could be interpreted to imply any one of a number of different assumptions as to the trend of the economy in 1956. The committee staff's own judgment, reinforced by consultation with other technicians, is that only the two extreme alternatives of a substantial inflationary expansion or a severe contraction are ruled out by this statement.

The range of interpretations of the Economic Report can be narrowed by making two assumptions. The staff assumes that the President's budget and other statements of the executive branch are consistent with the Economic Report, even though testimony as to such consistency was somewhat conflicting during the hearings.[2] It further

[1] Economic Report of the President, January 24, 1956 (hereinafter cited "Economic Report"), p. 49.

[2] See Report to the President on the Activities of the Council of Economic Advisers During 1955, appendix C of the Economic Report. In discussing the activities during the year of the Advisory Board on Economic Growth and Stability, under the chairmanship of the Chairman of the Council of Economic Advisers, the report states on p. 159: "The Advisory Board, which meets weekly, has been immensely helpful in coordinating the economic policies and actions of the various departments and agencies of the Government." Conflicting testimony was received at the hearings as to whether the Economic Report and the budget rested on the same economic assumptions, and even as to whether the revenue and expenditures sides of the budget reflected similar economic assumptions. For example, Robert Nathan said: "If we appraise the outlook for 1956 on the basis of the implications in the Economic Report, we see rising production, rising personal income, and rising profits. But if we appraise the outlook for 1956 on the basis of the implicit assumption in the budget message, we see no rise in production, no rise in personal income, a slight drop in profits, and rising unemployment." Hearings on the January 1956 Economic Report of the President, before the Joint Committee on the Economic Report, 84th Cong., 2d sess. (hereinafter cited "hearings"), p. 8. However, Arthur F. Burns, Chairman of the Council of Economic Advisers, in a letter February 14, 1956, authorized the use of the following colloquy with Grover W. Ensley, the committee's executive director, which took place at the executive session on January 30, 1956:

"Mr. ENSLEY. In your judgment, Mr. Burns, is the budget that was submitted, and the Economic Report, and the various parts and components that made them up, internally consistent with respect to assumptions as to economic developments during the coming year with respect, first, to personal income, corporate profits, national income, and price? Were the parts based upon a consistent set of assumptions?

"Mr. BURNS. I wish your question were clearer to me than it is, Mr. Ensley. Taking your question as I interpret it, my answer is in the affirmative" (hearings, p. 535).

All administration witnesses testified that the President's Economic Report and budget are consistent. According to most authorities, this consistency is required because the budget is the operating plan for carrying out administration policies. It has been argued, on the other hand, that this consistency is not necessarily required. According to this point of view, the Economic Report can be bold in looking toward the future and in advocating policies required in the interest of maximum employment, production, and purchasing power; but the budget, which covers a specific time period, should rest on conservative assumptions, particularly as to anticipated revenues.

assumes that the above statement quoted from the Economic Report is consistent with the statement of Secretary of the Treasury George M. Humphrey at the hearings, as follows:

> I expect that the economy over the year will continue to rise, perhaps not as much as it has in the past. I think we had quite an important rise in the past year.[3]

Taking all executive branch statements together, the staff interprets the Economic Report to imply a continued rise in economic activity during 1956 but at a rate significantly lower than that experienced during 1955.

Real output expanded 6.1 percent between 1954 and 1955 (9 percent from the low point in the second quarter of 1954 to the fourth quarter of 1955). This expansion brought the Nation to "* * * the threshold of a $400 billion economy."[4]

Today unemployment and unused capacity are low in contrast to the idle resources of a year ago. This raises the question for the coming year: Will the economy adjust from the recent high rate of expansion to a lower, more sustainable rate of long-term growth related primarily to increases during the year in capacity, in labor force, and in productivity? What are the prospects for making this adjustment without difficulty? The Economic Report, witnesses at the recent committee hearings, and many private analyses have discussed factors which could affect the economy during this period.

Among the supporting factors are indications that business plans to spend substantially more on plant and equipment in 1956 than in 1955; the Federal Government will purchase slightly more goods and services in 1956; and State and local governments again will increase their purchases.

On the other hand, consumers may not increase their spending in 1956 much from recent levels and, indeed, may spend less on consumer durables. Expenditures for nonfarm residential construction are expected to be lower in 1956 than in 1955. With total production rising faster than final demand, business inventories have been growing. If rising industrial prices hold back purchases by both business and consumers for industrial products, a further imbalance between demand, production, and inventories could result. Production and employment then would be reduced in order to bring inventories into line with sales. Both the wholesale and consumer price indexes have been generally stable over the last year, but this has been largely the result of falling farm prices offsetting rising nonfarm prices. Farm income continues to fall, in the aggregate, on a per capita basis, and among the one-third of the farm operators who produce nearly 85 percent of marketed farm products. This is an important area of weakness tending to hold down the rate of economic growth for the Nation as a whole.

At the beginning of 1956, therefore, the economic outlook indicates substantial strength and momentum but some mixed trends. The assumptions underlying the President's Economic Report and the budget seem to the committee staff to imply a gross national output of about $400 billion for 1956 (measured in constant fourth quarter 1955 prices), an increase of about 2.8 percent over 1955. This is, however, less than 1 percent over the preliminary estimate of the

[3] Hearings, p. 215.
[4] Economic Report, p. III.

annual rate in the fourth quarter of 1955.[5] Since labor force and productivity may be expected to increase, this $400 billion output would involve a somewhat lower rate of utilization of available resources for the year as a whole than prevailed in the third and fourth quarters of 1955. Because of the high level of activity at the start of 1956, however, it would mean that activity for the year as a whole should compare well with the trend based on the average of past years not marked by war or severe recession. It would represent achievement of the Employment Act objectives for the year as a whole, if these objectives are consistent with an unemployment rate averaging about 4 percent of the civilian labor force. In judging, however, whether economic activity fulfills the objectives of the Employment Act in any year, the direction of movement as well as the level must be taken into account. For example, some year which began with 2 percent unemployed and ended with 6 percent, may not represent achievement of the "maximum" employment goals, even though the average unemployment was only 4 percent. This would depend upon the nature and persistence of economic forces responsible for this movement.

Expansionary forces may push the economy upward from the $397 billion of the fourth quarter 1955, at the long-term growth rate. Output (measured in constant fourth quarter 1955 prices) could grow as fast as increasing productivity, labor force, and physical facilities permit, averaging about $405 billion for 1956, and attaining an annual rate of about $410 billion by the fourth quarter. If final demand were high enough to take up this output and speculative forces become more widespread, the recent rise in nonfarm prices would be carried further, thus raising the value of output in current prices even higher. This pattern of events would call for restrictive credit and fiscal policies, including the application to debt reduction of the resulting Federal budget surplus which would exceed that indicated in the President's budget message. If the third and fourth quarter 1955 rate of resource utilization is regarded as necessary to fulfill the objectives of the Employment Act, then an average of $405 billion for 1956, if attained without general price increase, would indicate achievement of these objectives.

If, on the other hand, the factors working toward reduced rates of activity should become dominant, then sometime during the year output would fall below levels consistent with the objectives of the Employment Act. Should such a downturn appear to be more than a transitory one affecting only a few overextended industries, credit policy would need to be liberalized and general tax reductions provided to stimulate economic growth.

At the same time, the hazard must be faced that too persistent and too strong an effort to avoid even temporary departures from a desirable long-run rate of growth may make the economy so rigid, may build in such an inflationary tendency, that the danger of spiraling prices may quickly become the paramount problem. The sharp rise in industrial prices in the latter half of 1955, when unemployment dropped below 4 percent, seasonally adjusted, and output rose above

[5] This seems consistent with testimony of Secretary Humphrey. See quotation above, p. 82, and its complete context in hearings, pp. 207–210, 214–216. In his letter of January 18, 1956, to Senator Paul H. Douglas, chairman of the Joint Committee on the Economic Report, Mr. Humphrey said: "We assume no change in prices during this period." See hearings, p. 82.

the staff-computed long-term trend, suggests the danger to be kept in mind.

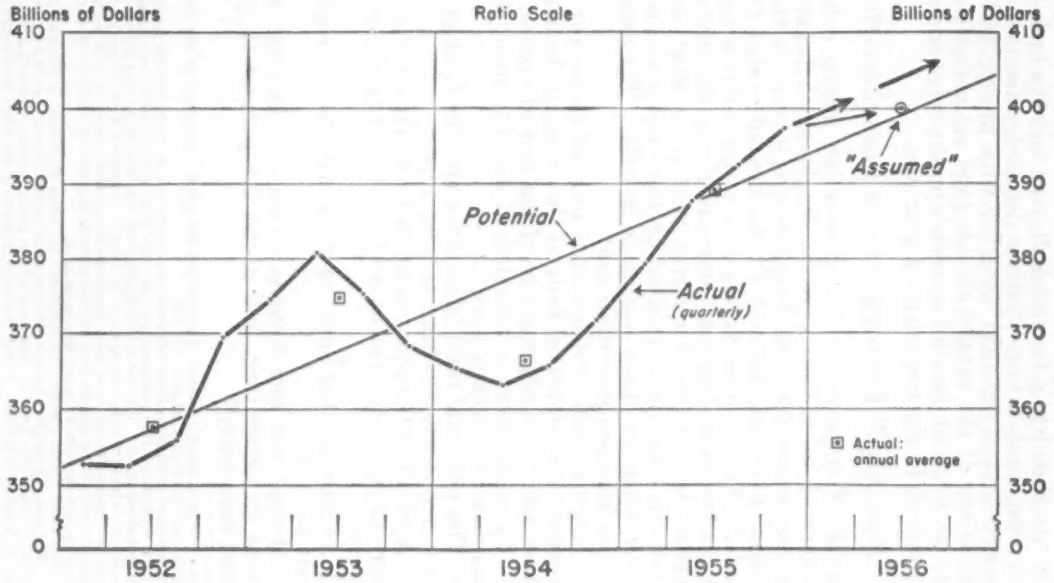
A middle course apparently underlying the President's reports calls for no change in fiscal and monetary policy in the interest of economic stabilization. The emphasis on elements of uncertainty at this time serves to underscore the importance of flexibility in economic policy.[6] Before Congress adjourns, it should be possible on the basis of actual developments to determine whether considerations of economic stability require a change in tax policy this year.

The accompanying chart illustrates the "potential" production trend estimated by the committee staff, past fluctuations in gross product above and below this trend, and the possible patterns of change in 1956 outlined above.

[6] Economic Report, pp. 49–50 and 75–76.

POTENTIAL GROSS NATIONAL PRODUCT COMPARED TO ACTUAL, 1952-1955, AND "ASSUMED" RISE IN 1956

As Implied in the Budget and Economic Report
(In constant 4th quarter 1955 prices) - Seasonally adjusted



Source: Department of Commerce, Council of Economic Advisers, and Staff, Joint Committee on the Economic Report.

The following staff materials provide:

(1) A calculation of potential output of the economy in 1956 in constant prices consistent with long-term trends of years not marked by war or severe recession;

(2) The assembly of estimates of demand for this output consistent with the staff's interpretation of executive branch statements, especially the President's Economic Report and the budget;

(3) The combination of these demand estimates into a Nation's economic budget for 1956, together with interpretation of the policy implications of the supply and demand estimates; and

(4) A review of the staff materials on the economic outlook for 1955, transmitted to the committee a year ago.

"Potential" Employment and Production During 1956

Levels of employment and production during calendar 1956 conforming with the objectives of the Employment Act are estimated on a basis consistent with the long-run projections in the staff's report, Potential Economic Growth of the United States During the Next Decade.[7] The 1956 potentials were computed in a manner consistent with the trends and assumptions underlying the long-run projections, converted to the fourth quarter 1955 price level, and adjusted for revisions in basic data reported by the various Government agencies since the long-run study was made in 1954. The assumptions underlying the long-run potentials are:

(1) International developments will not cause any marked change in presently contemplated Federal Government demand for goods and services, nor in the planned size of the Armed Forces.

(2) Unemployment is assumed to average about 4 percent of the civilian labor force each year.[8]

(3) The potential total labor force and the civilian labor force will increase about 700,000 from 1955 to 1956.[9]

(4) Agricultural employment will slowly decline while private nonagricultural employment and total civilian Government employment rise.

(5) Average annual hours of work will decline slightly less than 1 percent per year.

(6) Output per man-hour is assumed to increase about 3 percent per year in agriculture, and about 2.5 percent in private nonagricultural industries.[10]

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[7] Joint committee print, materials prepared for the Joint Committee on the Economic Report by the committee staff, 83d Cong., 2d sess., pp. 4–9.

[8] These assumed unemployed persons would be largely new entrants into the labor force, the frictional unemployed (i. e., those in process of changing jobs), and those shifting to new industries or occupations because of technological advances. The use of this assumption does not imply that the committee staff necessarily believes that this level of unemployment is "the level" consistent with the goals of the Employment Act. Such a determination would be a value judgment beyond the scope of staff responsibilities. However, such data as are available suggest that unemployment in years not marked by war or severe recession has averaged close to 4 percent of the civilian labor force.

[9] See letter from Ewan Clague, Commissioner of Labor Statistics, to Senator Douglas, Hearings, pp. 116–119. The actual total labor force in 1955 was 42,000 above the trend, or 68,896,000 compared to 68,854,000. The estimated total labor force for 1956, as given in Commissioner Clague's letter, is 69,660,000 compared to a trend estimate of 69,556,000. Thus, the actual increase in the labor force between 1955 and 1956 may be perhaps 750,000, compared to a trend increase of about 700,000. Most of this increase has already occurred, so that almost a plateau is assumed for the rest of the year, except for seasonal movements.

[10] These are rates of change which correspond to the long-term trend assumed for the current decade. They are above the average rates over the past century but are moderately below the rates of the past decade. Actual changes in any particular year-to-year comparison may be somewhat greater or smaller, depending upon a variety of factors reflecting the way in which our flexible economy adapts itself to changing demands. In the case of agriculture, particularly, the change for any individual year may differ from the assumed 3 percent because of temporary departures of growing conditions from average or Government restrictions on crop acreage. Studies by the Bureau of Labor Statistics on trends in output per man-hour in manufacturing appear to be roughly consistent with the estimates of output per man-hour in private nonagricultural industries developed in committee staff studies. See report of the Bureau of Labor Statistics in Hearings on Automation and Technological Change Before the Subcommittee on Economic Stabilization of the Joint Committee on the Economic Report, 84th Cong., 1st sess., pp. 301–334.

The above assumptions imply that the "potential" supply of gross national product, consistent with the long-run trend, would rise from about $319 billion (in 1947 prices) in 1955 to about $327 billion (in 1947 prices) in 1956. (See table 1.) Stated in terms of prices prevailing in the fourth quarter of 1955, the potential gross national product for 1956 would be $399 billion compared to $388 billion in 1955. This is a projection of "potential" output that may be considered consistent with employment and production objectives, over the long run. It is not a forecast of the actual production and demand which will develop in the coming year.

TABLE 1.—*Actual and "potential" gross national product in constant 1947 prices, calendar years 1952–55; estimated "potential," 1956*

Item	1952		1953		1954		1955		1956
	Actual	Potential	Actual	Potential	Actual	Potential	Preliminary	Potential	Potential
Population (in millions):									
Total	157.0	----------	159.6	----------	162.4	----------	165.2	----------	168.3
14 years of age and over	115.4	----------	116.6	----------	117.7	----------	118.8	----------	120.1
Total labor force (in millions)	[1] 67.0	[2] 66.7	67.4	[2] 67.4	67.8	[2] 68.1	68.9	[2] 68.9	[2] 69.6
Armed Forces	3.6	[3] 3.0	3.5	[3] 3.0	3.3	[3] 3.0	3.0	[3] 3.0	[3] 3.0
Civilian	63.4	63.7	63.8	64.4	64.5	65.1	65.8	65.9	66.6
Unemployment	1.7	2.5	1.6	2.6	3.2	2.6	2.7	2.6	2.7
Percent of civilian labor force	2.6	[4] 4.0	2.5	[4] 4.0	5.0	[4] 4.0	4.0	[4] 4.0	[4] 4.0
Employed, total	61.7	61.2	62.2	61.8	61.2	62.5	63.2	63.2	63.9
Private	55.7	55.2	56.1	55.7	55.1	56.3	57.0	56.9	57.5
Agriculture	7.2	6.6	6.6	6.5	6.5	6.4	[5] 6.7	6.3	6.3
Nonagriculture	48.5	48.6	49.6	49.2	48.6	49.9	50.2	50.6	51.2
Government-civilian [6]	6.0	[3] 6.0	6.1	[3] 6.1	6.2	[3] 6.2	[7] 6.2	[3] 6.3	[3] 6.4
Private:									
Average annual hours: [8]									
Agriculture	2,460	2,485	2,492	2,465	2,443	2,445	2,392	2,425	2,405
Nonagriculture	2,059	2,055	2,052	2,040	2,012	2,025	2,023	2,010	1,995
Output per man-hour: [9]									
Agriculture	$1.300	$1.309	$1.437	$1.410	$1.561	$1.452	$1.578	$1.496	$1.541
Nonagriculture	2.459	2.483	2.540	2.545	2.575	2.609	2.655	2.674	2.741
Gross national product (billions of 1947 dollars):									
Private (total)	$268.5	$270.2	$281.9	$278.2	$276.4	$286.5	$295.1	$294.9	$303.4
Agriculture [10]	22.9	22.4	23.5	22.6	24.8	22.8	25.4	23.0	23.2
Nonagriculture	245.6	247.8	258.4	255.6	251.6	263.7	269.8	271.9	280.2
Government (total) [11]	24.8	22.8	24.6	23.0	24.0	23.2	23.8	23.8	24.0
Total	293.3	293.0	306.5	301.2	300.5	309.7	318.8	318.7	327.4

[1] The actual labor force estimates for 1952, shown here, differ from published figures of the Bureau of the Census as a result of using revised population estimates consistent with later years.

[2] The potential labor force data are trend estimates which assume the 1920–50 trends in age-sex labor force participation rates with an adjustment in the rates for adult women based on accelerated increases observed in the postwar years 1947–50 (see letter of Ewan Clague, Commissioner of Labor Statistics, to Senator Douglas, hearings, pp. 116–119).

[3] The estimates of potential Government employment, civilian and military, are based on long-term trends which smooth out year-to-year fluctuations. For the Armed Forces, the potential assumes 3,000,000 each year, while for civilian government employment the trend increases about 100,000 per year to take care of the long-term growth, principally at the State and local level, in such occupations as schoolteaching, police, fire, etc., where employment is related to population growth.

[4] These assumed unemployed persons would be largely new entrants into the labor force, the frictional unemployed (i. e., those in process of changing jobs), and those shifting to new industries or occupations because of technological advances. This rate of unemployment is not necessarily the only one consistent with "maximum" employment. However, data suggest unemployment has averaged close to 4 percent of the civilian labor force in years not marked by war or severe recession.

[5] The increase in agricultural employment of 0.2 million over 1954 shown by the Bureau of the Census data is a reversal of the trend of the past decade and does not agree with the 0.2 million decline between 1954 and 1955 shown by the farm employment estimates of the Agricultural Marketing Service.

[6] Estimates of civilian government employment were taken from the estimates of the National Income Division, Office of Business Economics, Department of Commerce, in order to be consistent with their estimates of Government gross product. The figures include all Federal, State, and local civilian employees except employees in Government commercial-type enterprises.

[7] Estimated.

[8] See assumptions, p. 86.

[9] See assumptions, p. 86.

[10] "Potential" agricultural gross national product differs from, and is generally lower than, the actual in each of these years because of: (*a*) year-to-year fluctuations in yields due to weather and other growing conditions; and (*b*) the "potential" reflects long-term trends roughly consistent with a balance between agricultural output and demand, while in many recent years actual agricultural output has exceeded demand.

[11] Government gross product represents compensation of general Government employees—civilian and military. The potential is based on the assumed trends in Government employment specified in footnote 3 above.

NOTE.—Detail will not necessarily add to totals because of rounding.

Sources: Population, labor force, and average annual hours: Bureau of the Census, Department of Commerce, except as noted.

Gross national product: 1952–54 actuals, and 1955 preliminary, Office of Business Economics Department of Commerce.

Assumed Demand for National Production During 1956

Estimates of demand for goods and services during calendar 1956 reflect outlook assumptions in executive branch statements or, where these are not clear or explicit, the committee staff's interpretation of what specific assumptions would be consistent with them. These were supplemented by explicit incorporation of results of surveys of business investment plans for 1956.

Government demand for goods and services

(1) Federal Government purchases of goods and services are assumed to amount to $46.2 billion in calendar 1956, slightly higher than in 1955.[11]

(2) State and local government purchases are expected to increase at the rate of recent years, or up $2.3 billion over the calendar 1955 level. This assumption may prove to be too low if State and local government purchases are stimulated in calendar 1956 by proposed new Federal grants-in-aid programs in such fields as highways and schools.

[Billions of dollars]

Demand for gross national product	Preliminary 1955	Estimated 1956
Government	75.9	78.6
Federal	45.8	46.2
National security	40.8	41.1
Other	5.0	5.1
State and local	30.1	32.4

[11] This estimate was derived from the statement of the Department of Commerce, hearings, pp. 115-116. On a fiscal year basis, as distinct from the calendar year basis used in these staff materials, the Department of Commerce summarized official budget estimates as follows:

Federal Government Receipts and Expenditures, Fiscal Years 1955-57

[Billions of dollars]

Basis	Fiscal years		
	Actual, 1955	Estimated	
		1956	1957
Administrative budget:			
Receipts	60.4	64.5	66.3
Expenditures	64.6	64.3	65.9
Surplus or deficit (−)	−4.2	.2	.4
Cash budget:			
Receipts	67.8	73.5	75.4
Expenditures	70.5	71.0	72.9
Surplus or deficit (−)	−2.7	2.4	2.4
National income and product account:			
Receipts	66.6	73.4	74.8
Expenditures [1]	67.5	70.0	71.5
Surplus or deficit (−)	−.9	3.3	3.3

[1] In addition to purchases of goods and services this item includes transfer payments, net interest, subsidies, and current surplus of Government enterprises.

Note.—Detail will not necessarily add to totals because of rounding.

Source: Administrative and cash budgets from The Budget of the United States Government for the fiscal year ending June 30, 1957; national income and product account data from U. S. Department of Commerce, Office of Business Economics; statistics for 1956 and 1957 based on estimates in the budget for fiscal year 1957.

Business demand

(1) Residential nonfarm construction expenditures in calendar 1956 are assumed to average $16.2 billion, or slightly below 1955, as a result of a lower number of housing starts but somewhat higher costs per house.[12]

(2) Expenditures on other private construction are assumed to increase a billion dollars over the 1955 level.[13]

(3) Business spending on producers' durable equipment in calendar 1956 is assumed to increase $3.1 billion over the 1955 level of such outlays.[14]

(4) Business inventories in calendar 1956 are assumed to increase by $3.5 billion compared to about $3.2 billion in 1955. The Economic Report and the testimony at the hearings give little basis for choosing any specific figure. Since the 1955 inventory accumulation included a buildup in automobile stocks which the industry does not expect to repeat in 1956, the assumed inventory increase for 1956 may imply a rate of additions to stock by business which could not be sustained. The figure, of course, includes some allowance for higher prices prevailing at the end of the year 1955 than the average prices of the year which are reflected in the annual inventory change. A more sustainable rate for 1956 would probably be of the rough magnitude of $2 billion per year.

(5) Net foreign investment is assumed to be zero in 1956, the same as in the second half of 1955.

[Billions of dollars]

Demand for gross national product	Preliminary, 1955	Estimated, 1956
Business	59.0	63.4
Residential nonfarm construction	16.6	16.2
Other private construction	15.8	16.8
Producers' durable equipment	23.8	26.9
Net change in business inventories	3.2	3.5
Net foreign investment	−.4	0

Internal funds available to business for investment are assumed to increase about $3.8 billion as a net result of—

(*a*) Assumed corporate profits before taxes of $43.0 billion in calendar 1956, about the same as the preliminary estimate for 1955, but, an assumed increase in corporate profits and inventory valuation adjustment from a preliminary estimate of $41.4 billion in 1955 to $43.0 billion in 1956—reflecting the assumption of stable prices in 1956 in contrast to rising prices in 1955:[15]

(*b*) Retention in 1956 of present tax rates on corporate profits;

(*c*) Continuation of trends of recent years toward retention of a lower percentage and payment of a slightly higher percentage of profits after taxes in dividends; and

(*d*) A further rise in capital consumption allowances of about $2.2 billion per year.

[12] See estimates of construction expenditures in calendar 1956, prepared jointly by the Departments of Labor and Commerce, released Nov. 9, 1955.

[13] Ibid.

[14] Based on results of: Preliminary Survey of Business Men's Plans for New Plant and Equipment, McGraw-Hill Publishing Co., Nov. 11, 1955; Plant and Equipment Expenditures of United States Business, 1955-56, Securities and Exchange Commission and the Department of Commerce, Dec. 8, 1955; and assumptions as to probable expenditures on private construction other than residential nonfarm which are included in item (2).

[15] Assumptions underlying revenue estimates in the President's budget of January 1956. See letter of Secretary Humphrey, hearings, p. 82.

Consumer demand

(1) Disposable personal income is calculated to increase from $269.4 billion in calendar 1955 to about $275.3 billion in 1956. This rise is based on—

(*a*) Personal income of $312.5 billion in 1956, approximately the rate of the fourth quarter 1955, and $9.2 billion above the average for the whole year 1955;[16] and

(*b*) Present tax rates.

(2) The rate of personal savings in calendar 1956 is assumed to be 6.3 percent of disposable personal income, the same as estimated for 1955.[17]

(3) On the basis of these assumptions, consumer expenditures are calculated to increase from $252.3 billion in 1955 to about $258 billion in 1956, which is $0.8 billion above the rate of $257.2 billion reached in the fourth quarter of 1955.[17]

[Billions of dollars]

Demand for gross national product	Preliminary, 1955	Estimated, 1956
Consumer: Disposable personal income	269.4	275.3
Savings: Amount	17.1	17.3
Percent of disposable personal income	6.3	6.3
Expenditures	252.3	258.0
Durable goods	35.3	33.0
Nondurable goods	125.9	130.0
Services	91.2	95.0

The Nation's Economic Budget for 1956

These estimates of demand for goods and services have been combined into a Nation's economic budget for 1956, the policy implications of which are interpreted in the context of the "potential" supply estimates (see table 1, p. 88, and accompanying text explanation). For comparison, consolidated accounts for 1952–55 are also shown.

[16] Assumptions underlying revenue estimates in the President's budget of January 1956. See letter of Secretary Humphrey, hearings, p. 82.

This assumption was emphatically reaffirmed by Secretary Humphrey, in testimony before the committee on February 3. He stated: "* * * that the average on the individual, the 1955 income, assuming as high a figure or even a higher figure for the fourth quarter than is here estimated, the average will be about 302 [billion dollars] for the whole year of 1955, and we are estimating about 312¼ [billion dollars] for the whole year of 1956. In other words, we are estimating about a 3-percent increase from 1 year to the next year in personal income. That is what our personal income tax figure is based on." Hearings, p. 208. Subsequently, when pressed further as to the assumptions for calendar 1956 in light of more recent but preliminary estimates for the fourth quarter of 1955, the Secretary stated: "I place more reliance on my 1956 estimates than I do on any others and I think that mine have been better * * *." Hearings, p. 210. If nonfarm prices and wages should rise this year, as many expect (see p. 97 below), personal income might average higher than the $312.5 billion assumed by Secretary Humphrey. It is the staff's judgment that, due to the difficulties encountered in going from an assumed personal income to an estimate of tax receipts, the estimates of revenue from personal income taxes contained in the President's budget might well be consistent with a personal income higher than the $312.5 billion. Thus, if personal income actually turns out to be moderately higher in 1956 than the $312.5 billion estimated by the Treasury, personal tax collections may not exceed the budget estimates.

[17] The language of the Economic Report is not explicit enough to enable the staff to be certain what assumptions were made concerning personal savings and consumer expenditures. The report does say: "Thus, the trend of aggregate consumer spending continues to be upward, despite the recent decline of expenditures on durables. If it is unlikely that consumers will buy automobiles in 1956 at last year's extraordinary rate, they may spend more freely on home improvements, home furnishings, and nondurables. The urge to maintain and improve living standards is so strong nowadays that continuation of a high level of consumer spending can be reasonably anticipated." (P. 49.) This could imply a rate of personal savings close to the 1955 average, combined with a decline in spending on consumer durables, and rises in nondurables and services. On the other hand, the lower levels of residential nonfarm construction and automobile buying expected in the Economic Report would seem to imply a higher savings rate in 1956. (See p. 96–97 below.) This higher savings rate, however, does not seem consistent with the economic assumptions underlying the budget.

The accounts show income, expenditures, and savings or dissavings for the consumer, business, and Government sectors. The concepts are those of the national income accounts of the Department of Commerce. The information thus presented in table 2 for the Nation is similar to a projected operating budget of a private business.

TABLE 2.—*Summary of the Nation's economic budget, actual calendar years 1952–54; preliminary, 1955; and estimated, 1956*

[Billions of dollars]

Item	Actual, 1952	Actual, 1953	Actual, 1954	Preliminary, 1955	Estimated, 1956 [1]
Personal:					
Income: Total disposable	$236.7	$250.4	$254.8	$269.4	$275.3
Expenditures:					
Durable goods	26.6	29.8	29.3	35.3	33.0
Nondurable goods	116.0	118.9	120.9	125.9	130.0
Services	75.7	81.8	86.4	91.2	95.0
Total expenditures	218.3	230.6	236.5	252.3	258.0
Savings (+)	18.4	19.8	18.3	17.1	[2] 17.3
Business:					
Income:					
Undistributed corporate profits	7.1	7.7	7.0	10.4	10.0
Capital consumption allowances	25.5	27.8	30.0	32.3	34.5
Inventory valuation adjustment	1.0	−1.1	−.2	−2.0	0
Total income	33.7	34.4	36.8	40.7	44.5
Expenditures:					
Residential nonfarm construction	11.1	11.9	13.5	16.6	16.2
Other construction	12.6	13.8	14.3	15.8	16.8
Producers' durable equipment	23.1	24.4	22.3	23.8	26.9
Changes in business inventories	2.8	1.2	−2.9	3.2	3.5
Net foreign investment	−.2	−2.0	−.3	−.4	0
Total expenditures	49.4	49.4	47.0	59.0	63.4
Dissavings (−)	−15.7	−15.0	−10.2	−18.3	−18.9
Government:					
Income:					
Personal tax and nontax payments	34.4	35.8	32.8	33.9	37.2
Business tax and nontax payments	47.9	51.4	47.3	53.7	54.5
Contributions for social insurance	8.6	8.7	9.6	11.0	12.0
Less: Transfer payments [3]	16.8	17.5	20.1	21.5	23.5
Total income	74.1	78.4	69.7	77.1	80.2
Expenditures:					
Federal	54.3	59.5	49.2	45.8	46.2
National security	48.8	51.4	43.2	40.8	41.1
Other [4]	5.5	8.1	6.0	5.0	5.1
State and local	23.2	25.0	27.8	30.1	32.4
Total expenditures	77.5	84.5	77.0	75.9	78.6
Dissavings (−) or savings (+)	−3.4	−6.0	−7.2	+1.2	+1.6
Statistical discrepancy (+) or (−)	+.7	+1.3	−.8	−.1	0
Total gross national product	345.2	364.5	360.5	387.2	400.0

[1] Estimates for 1956 reflect assumptions contained in the executive branch statements or, where assumptions are not clear or explicit, the committee staff's interpretation of levels consistent with the President's budget and Economic Report. The estimates assume that prices in 1956 will be about the same as in the 4th quarter of 1955.

[2] Personal savings in 1956 are estimated at 6.3 percent of disposable personal income, the same as in 1955.

[3] In addition to Government transfer payments as defined by the Department of Commerce, this item includes net interest and subsidies, minus current surplus of Government enterprises.

[4] Other Federal purchases of goods and services less Government sales.

NOTE.—Detail will not necessarily add to totals because of rounding.

Sources: Actuals and preliminary, 1952–55, Department of Commerce; estimates for 1956, staff, Joint Committee on the Economic Report.

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If gross national production in 1956 approximates the $400 billion, which the committee staff estimates to be implied in the President's Economic Report and budget, it would represent an increase over the year 1955 of about 3.3 percent in current prices, or about 2.8 percent in real terms after allowance for the higher level of prices at the beginning of 1956.[18] This level of activity would probably result in an increase of nearly 3 percent between 1955 and 1956 in national income and in personal income. (See table 3.) Since population is expected to continue to increase, both disposable personal income and consumption of goods and services on a per capita basis would increase less than one-half of 1 percent from the 1955 average, and, in fact, would be about 1 percent below the annual rate attained in the fourth quarter of 1955.

If attained, these rates of output and employment would be consistent with the long-run average trend of output in past years not marked by war or severe recession but would imply both (1) a lower degree of resource use than achieved in the second half of 1955, and (2) economic growth at a rate substantially below the long-run average. Therefore, some tendencies could develop during the year toward increases in unemployment and shortening of hours of work below recent high levels as output failed to rise sufficiently to absorb all the increases in the labor force.

[18] The $400 billion estimate of gross national product in 1956, which implies continued growth at a modest rate, is consistent with the budget assumption of a personal income of $312.5 billion for 1956. Output can rise at this modest rate from the level of the fourth quarter of 1955, even though the average personal income for 1956 is only fractionally above the fourth quarter of 1955, because of assumptions of mixed trends in the economy (summarized in tables 2 and 3). First, dividend payments to individuals are likely to average less in 1956, under the Treasury assumptions as to corporate profits, than the annual rate in the fourth quarter of 1955. Furthermore, in that quarter, large year-end extra dividends were paid in addition to regular dividends. Second, the Treasury assumptions for personal income, if consistent with the Department of Agriculture estimates, would imply some further decline in calendar 1956 in farm income which would also tend to lower personal income from the rate attained in the fourth quarter of 1955. Third, if income of unincorporate business is assumed to follow a pattern similar to the Treasury's assumption for corporate profits, such income would average slightly lower in 1956 than in the fourth quarter of 1955. The lower levels of these three factors taken together could allow a margin for rising labor and other incomes corresponding to moderate increases in real output. Furthermore, increases in productivity and in the labor force might be partly offset by reductions in hours of work from the relatively high levels of the latter part of 1955. Personal income in the first quarter of 1956 could be somewhat below the assumed average of $312.5 billion and could rise slightly during the year to a figure moderately above the average by the fourth quarter. On the other hand, as pointed out in the text above, the modest growth implied by the estimated $400 billion gross national product for 1956 (and corresponding personal income of $312.5 billion) probably would means some tendency toward an increase in unemployment during the year. At a rough estimate, this could imply an increase in unemployment from the fourth quarter of 1955 to the fourth quarter of 1956 by as much as a million or more to a level between 3 and 4 million, depending on how hours of work and productivity change. This large an increase in unemployment probably would be inconsistent with the budget estimates of State withdrawals from the unemployment trust funds. At the hearings Gerhard Colm stated: "There are also rather optimistic assumptions implied in the estimated State withdrawals from the unemployment trust funds. The figures for 1956 are somewhere between those for [fiscal] 1955 and those for [fiscal] 1956, and would allow for an increase in unemployment, I think of something like 200,000. These assumptions would not appear to be on the same basis as the estimates for the revenue side." (Hearings, p. 134.)

TABLE 3.—*Relation of gross national product, net national product, national income and personal income, calendar years 1952–54, preliminary 1955, estimated, 1956*

[Billions of dollars]

Item	Actual, 1952	Actual, 1953	Actual, 1954	Preliminary, 1955	Estimated, 1956 [1]
Gross national product	$345.2	$364.5	$360.5	$387.2	$400.0
Less: Capital consumption allowances	25.5	27.8	30.0	32.3	34.5
Equals: Net national product	319.7	336.7	330.4	354.9	365.5
Less:					
Indirect business tax and nontax liability	28.1	30.2	30.3	31.9	33.0
Business transfer payments	1.2	1.2	1.2	1.2	1.2
Statistical discrepancy	.7	1.3	−.8	−.1	0
Plus: Subsidies less current surplus of Government enterprises	−.1	−.4	−.1	.5	.5
Equals: National income	289.5	303.6	299.7	322.3	331.8
Less:					
Corporate profits and inventory valuation adjustment	36.9	37.2	33.8	41.4	[3] 43.0
Contributions for social insurance	8.6	8.7	9.6	11.0	12.0
Excess of wage accruals over disbursements	−.03	−.1	0	0	0
Plus:					
Government transfer payments	12.0	12.8	15.0	16.0	17.8
Net interest paid by Government	4.9	5.0	5.2	5.0	5.2
Dividends	9.0	9.3	10.0	11.2	11.5
Business transfer payments	1.2	1.2	1.2	1.2	1.2
Equals: Personal income	271.1	286.2	287.6	303.3	[3] 312.5
Less:					
Personal tax and nontax payments	34.4	35.8	32.8	33.9	37.2
Federal	31.2	32.4	29.1	30.0	33.1
State and local	3.2	3.4	3.7	3.9	4.1
Equals: Disposable personal income	236.7	250.4	254.8	269.4	275.3
Less: Personal consumption expenditures	218.3	230.6	236.5	252.3	258.0
Equals: Personal saving	18.4	19.8	18.3	17.1	[3] 17.3
Addendum:					
Corporate profits and inventory valuation adjustment	36.9	37.2	33.8	41.4	43.0
Inventory valuation adjustment	1.0	−1.1	−.2	−2.0	0
Corporate profits before tax	35.9	38.3	34.0	43.4	43.0
Corporate profits tax liability	19.8	21.3	17.1	21.8	21.5
Corporate profits after tax	16.1	17.0	17.0	21.6	21.5
Dividends	9.0	9.3	10.0	11.2	11.5
Undistributed corporate income	7.1	7.7	7.0	10.4	10.0

[1] Estimates for 1956 reflect assumptions contained in the executive branch statements or, where assumptions are not clear or explicit, the committee staff's interpretation of levels consistent with the President's Budget and Economic Report. The estimates assume that prices in 1956 will be about the same as in the 4th quarter of 1955.

[2] Assumptions on which the revenue estimates in the President's Budget are based. See letter of Secretary Humphrey, hearings, p. 82.

[3] Personal savings in 1956 are estimated at 6.3 percent of disposable personal income, the same as in 1955.

NOTE.—Detail will not necessarily add to totals because of rounding.

Sources: Actuals and preliminary 1952–55, Department of Commerce; estimates for 1956, staff, Joint Committee on the Economic Report.

At the beginning of 1955, national production was somewhat below the potential. By the third quarter, output rose moderately above the potential. For the year actual gross national product averaged slightly above the potential. Unemployment averaged about 4 percent of the civilian labor force, beginning the year above this rate and declining during the year. If a $400 billion output is an accurate estimate of prospects for 1956, then the economy would be growing

during the year, but, starting from the fourth quarter 1955 level, the rate of growth would be less than the long-term average. The rate of increase, in constant prices, from the average of 1955 to the average of 1956 would approximate the long-run average.

If this growth were at a uniform rate from the $397.3 billion of the fourth quarter of 1955, by the fourth quarter of 1956 output would be somewhat below the long-term trend rather than moderately above as in the fourth quarter of 1955. This would imply shorter hours of work, more unemployment, lower output per man-hour (the result of reduced rate of operations and change in product mix), or some combination of the three. If all of the increased slack in the economy took the form of unemployment, then by the fourth quarter of this year the seasonally adjusted rate of unemployment might be as high as 6 percent of the civilian labor force, or about 4 million in round numbers.

On the other hand, a $400 billion average output for the year might imply a "saucer effect," with no significant change for the first half of this year followed by a sharp rise in the second half. This might imply a rise in the seasonably adjusted rate of unemployment during the first half of the year followed by a fall in the second half. However, the figures seem to imply that, unless hours of work are shortened, or output per man-hour slows its rate of rise significantly, unemployment would still be higher at the end of 1956 than at the end of 1955. If the increase in the labor force turns out to be greater than indicated by long-term trends, the rise in unemployment would be larger.

If the economy were to continue to grow in line with long-run average increases in the labor force, in productivity, and in industrial capacity, but at the rate of utilization of resources prevailing in the third and fourth quarters of 1955, the economy could produce a gross national product of about $405 billion in 1956 (valued at prices prevailing in the fourth quarter of 1955).

Thus, the question in 1956 is whether, and how, the economy can make the transition from the 1954–55 rate of growth in real terms of over 6 percent per year to the long-term rate about half as rapid. In 1956, a $405 billion economy would be consistent with simply slowing up to the long-run rate of growth, while a $400 billion economy would imply a temporary period of growth slower than the long-run rate.

Factors favorable to economic growth in 1956 have been incorporated into the preceding estimates of demand, shown in table 2 (p. 93). These factors may prove strong enough to generate more than a $400 billion demand. On the other hand, there are several unfavorable factors which might change the course of events during the year. Some of these were stated in the Economic Report, in testimony of witnesses during committee hearings, and in analyses of the economic outlook from both Government and outside sources.

First, in 1955, consumers saved only 6.3 percent of their disposable personal income compared to rates between 7 and 8 percent in recent years. This lower savings rate was accompanied by a rise in outstanding installment and real estate mortgage debt of nearly $18 billion compared with an increase of about $9 billion in 1954. In 1956, consumers will be repaying outstanding debts at a higher rate as a result

of the debt increase in 1955. New debts may be contracted at a rate no higher than in 1955, or probably somewhat lower. For example, even with sales of 7 million new automobiles this year (higher than the industry seems to expect), outstanding installment credit might rise by as little as $1.5 billion compared to $5.4 billion in 1955. This would mean a tendency toward a higher ratio of personal savings to disposable personal income rather than the assumed stable rate of 6.3 percent. It may be significant that the rate rose to 7 percent in the fourth quarter of 1955, a period during which automobile sales were below levels prevailing earlier when the personal savings rate was about 6 percent.

Second, prices of goods and services other than food and farm products have been rising in the past year. The stability of the wholesale and consumer price indexes is largely due to declines in farm products and foods which have offset other increases. In the second half of 1955 prices were particularly strong. Thus, at the wholesale level, prices of crude materials for further processing, other than food and feed, advanced about 6 percent, or at an annual rate of about 12 percent. Intermediate or partly finished products advanced about 3 percent in the same 6 months, or about 6 percent per year. Wholesale prices of finished consumer durables advanced about 3 percent and prices of finished producers' goods advanced about 4 percent in the last 6 months of the year. Construction costs have also been rising at a rate of over 3 percent a year. Many of these increases at the wholesale level had not found their way through to the retail level. Further steel price increases are rumored. Most analysts expect wages to continue to increase in 1956, including wages in some industries and areas affected by the new minimum wage law. Some wage increases in 1956 are already embodied in existing labor-management contracts. In instances where these wage increases cannot be offset by rising output per man-hour, prices may rise. Taking all factors into account, including the working through to the retail level of price increases already in effect at the wholesale level, some experts now expect a further moderate rise in the general level of prices into at least the first half of this year.

Price rises usually are expected to perform two functions: to hold down or reduce purchases, and to encourage business to increase production and capacity. Such a combination of responses to price rises now could result in an involuntary buildup of inventories in excess of levels warranted by sales. This would accentuate the inventory problem discussed below.

Third, production already is rising faster than final demand. Inventory accumulation is now estimated to have exceeded $5 billion at an annual rate in the fourth quarter of 1955, the largest rate of accumulation since early 1953. A large part of this resulted from increased stocks of automobile dealers. The current low ratio of inventories to sales is not necessarily a good indication that excesses are not developing. This ratio is often lowest while future excess inventory positions are being created by a more rapid buildup of orders for future delivery than sales will later justify. If in the next few months business should have to reduce orders to correct an excessive rate of inventory buildup, then production, employment, and incomes could be reduced significantly.

Fourth, if farm prices and incomes continue to decline as now expected, business firms selling to farmers may experience falling sales. This would adversely affect many small communities as well as suppliers of farm machinery and other products.

These factors could cause the economy to depart from the slower but desirable growth which analyses indicate is possible. The staff's analysis of the judgments and projections of numerous economic experts, both in private business and in the Government, indicates considerable diversity of views as to what course economic activity might take during this year as a result of these forces. Some believe the economy may simply level out for a while, with some growth in unemployment as labor force and productivity rise. Others believe that output will fall moderately between the first quarter and the third quarter, with a renewed rise in the fourth quarter sparked by increases in residential building and in automobile sales when new 1957 models are introduced.

REVIEW OF THE MATERIALS ON THE ECONOMIC OUTLOOK FOR 1955

Economic policy decisions are forward looking. They rest on assumptions about future developments formulated in the light of present knowledge and observable trends. They should include provision against surprise if events work out differently. Progress in developing better economic policies can be achieved by constant reexamination of experience so as (1) to improve our knowledge of how to select the best assumptions for particular purposes, and (2) to improve techniques for estimating as precisely as possible the outcome to be expected from any assumption or combination of assumptions used as a basis for policy decisions. Such improvements in economic projections can contribute to economic stability.

The only way that economists and policymakers can review adequately previous economic analyses is to insist upon clear, exact statements of the analyses and assumptions, including quantitative estimates for those factors for which historical measurements are available in our economic statistics. The staff, therefore, believes the committee will find valuable the following summary of its annual review of the projections of 1955 in the light of actual developments.[19]

The materials on the economic outlook prepared each year for committee use by the staff are assembled in three steps: (*a*) A calculation of the potential output of the economy in the coming year on the basis of long-run trends of years not marked by war or severe recession; (*b*) a summary of assumptions as to demand during the coming year implicit in executive branch statements and the testimony of witnesses before the committee; and (*c*) a summation of these projections and assumptions into a Nation's economic budget with an analysis of implications. In its materials on the economic outlook for 1955 a year ago, the staff made five points:

(1) If unemployment averaged about 4 percent of the civilian labor force in 1955, then long-run trends would indicate the economy could produce a gross national product of $380 billion, rising to an annual rate of about $385 billion by the end of the year.[20]

(2) "The assumptions of the Economic Report and the budget [transmitted in January 1955] seem to imply an estimate of demand by Government, business, and consumers for goods and services totaling about $375 billion for 1955. Since the year started at an annual rate of about $365 billion, or less than the 'maximum' employment

[19] Joint Economic Report, Report of the Joint Committee on the Economic Report on the January 1955 Economic Report of the President, S. Rept. 60, 84th Cong., 1st sess., pp. 79–93. In preparing this review of the 1955 projections, the staff has been handicapped by imperfections in the price deflators for gross national product, and especially by the lack of official quarterly deflators. The adjustments for price change, therefore, are only indicative of the rough order of magnitude.

[20] Ibid., pp. 84–86.

and production level, this demand for 1955 as a whole implies a rise to an annual rate of about $385 billion by the end of the year." [21]

(3) "Such a year-end rate, in the staff's judgment, would, perhaps, approximate that needed to satisfy the employment and production goals of the Employment Act." [21]

(4) "If realized, this expansion would be a substantial accomplishment. It would call for a continuance in succeeding quarters of a rate of advance in economic activity close to that prevailing since the third quarter of 1954. The consensus of views of the witnesses appearing before this committee a month ago was that this rate of acceleration might not be maintained." [22] The committee staff did not present a forecast of its own.

(5) All estimates were "* * * stated in 1954 prices in order to show changes in real terms." [23]

How Close Was Actual Output in 1955 to the Staff Estimate of Potential Output?

Unemployment in 1955 averaged about 4 percent of the civilian labor force, the same as assumed in computing the potential. The preliminary estimate of gross national product in 1955 is $387.2 billion in 1955 prices.[24] Since the staff estimates were stated in constant 1954 prices, it is necessary to revalue the annual figure of $380 billion into 1955 prices, resulting in a level of $386 billion. Thus, for 1955, the preliminary estimate in the January 1956 Economic Report is $1.2 billion or 0.3 percent above the potential calculated a year earlier. The difference between the preliminary estimate in the Economic Report for each of the last 6 years and the later official figures from the Department of Commerce has averaged about $2 to $3 billion, or only slightly less than 1 percent.

Output early in 1955 was below the computed potential, later rose above it and averaged close to, or fractionally above it for the year. We expect temporary departures of actual economic activity from projected potential long-term trends. Such departures are not to be interpreted as errors in the projections of the potentials. If achievement of the Employment Act objectives are stated in terms of "Full employment, rising incomes, and a stable dollar * * *" then, the President states in the Economic Report, "The practical attainment of these ideals during 1955 was the year's great economic achievement." [25]

[Billions of dollars]

	1955
Gross national product: Preliminary estimate January 1956	$387.2
Adjustment due to difference in unemployment	0
Adjusted actual gross national product	$387.2
Potential gross national product: January 1955 projection	$380.0
Adjustments: Revision upwards due to price rise	+6.0
Adjusted potential gross national product	$386.0
Understatement:	
In billions of dollars	1.2
Percent	.3

[21] Ibid., p. 83.
[22] Ibid., p. 83.
[23] Ibid., p. 84.
[24] Economic Report, table D-1, p. 165.
[25] Ibid., p. III.

How Good a Basis for Policy Were the Demand Assumptions Implicit in the Economic Report and the Budget?

The January 1955 Economic Report of the President stated:

> With economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of "maximum employment, production, and purchasing power" envisaged by the Employment Act (p. 24).

In answer to a letter from Senator Douglas, Marion B. Folsom, former Under Secretary of the Treasury, stated the economic assumptions underlying the estimates of receipts in the January 1955 budget. These assumed continued economic growth: personal income was assumed to rise $12 billion, or 4.2 percent, from $286.5 billion in 1954 to $298.5 billion in 1955; and corporate profits before taxes were assumed to rise $2.5 billion, or 6.9 percent, from $36 billion in 1954 to $38.5 billion in 1955.[26]

The staff analysis reached the conclusion that the Economic Report and the budget probably implied a demand for a gross national product in 1955 of $375 billion, rising from about $365 billion at the beginning of the year to about $385 billion by the end of the year.

The assumed average for 1955 must be adjusted by adding about $5.6 billion to allow for price rises in 1955, and by another $3.4 billion because of revisions in July 1955 of the 1954 benchmark data from which the projections were made. The price adjustment for the fourth quarter of 1955 would be about $7.7 billion on the basis of preliminary data. Therefore, the revised annual estimate would be $384 billion, and, the fourth quarter rate about $394.8 billion.

[Billions of dollars]

	1955	
	Year	4th quarter
Gross national product: Preliminary estimate January 1956	$387.2	$397.3
Gross national product: Assumed in January 1955	$375.0	[1] $383.7
Adjustments:		
Revision upward due to revision of 1954 benchmark	+$3.4	+$3.4
Revision upward due to price rise	+$5.6	+$7.7
Adjusted gross national product as assumed	$384.0	$394.8
Understatement:		
In billions of dollars	$3.2	$2.5
Percent	0.8	0.6

[1] Corresponds to the year-end rate of $385 billion stated in the Staff Materials a year ago.

The staff believes the understatement for the year of only $3.2 billion, and for the fourth quarter of only $2.5 billion (annual rate) are within limits of acceptability and can be easily explained.

First, the Economic Report transmitted in January 1955 did not give explicit figures corresponding to its qualitative statement, nor did the Council supply them in answer to committee questions. Although the staff tried to make its estimates of the output implied in the Economic Report as fair as possible, the estimates really implied in the Economic Report may have been even closer to later events than here estimated.

[26] Hearings on the January 1955 Economic Report of the President before the Joint Committee on the Economic Report, 84th Cong., 1st sess., pp. 1146-1147.

Second, the Economic Report specifically warned against the possibility of speculative excesses in such areas as housing or installment credit, the ones which probably account for much, if not all, of the observed excess for the year 1955 over what the staff believed were implied in the Economic Report.

The projections underlying the Economic Report and the budget of January 1955 provided as good a basis for policy as could be formulated at the time. In reviewing such projections it is important to keep in mind the point made by the Executive Director in his letter of transmittal a year ago,[27] and again this year as follows:

> While it is necessary to use detailed and precise figures in preparing economic projections which are internally consistent, it must be emphasized that the purpose of such projections is to show the general order of magnitude and direction of possible major economic developments on the basis of stated assumptions. (See p. 79 above.)

[27] Joint Economic Report, Report of the Joint Committee on the Economic Report on the January 1955 Economic Report of the President, S. Rept. 60, 84th Cong., 1st sess., p. 82.

APPENDIXES

Appendix A

RECOMMENDATIONS OF SUBCOMMITTEES RESULTING FROM 1955 STUDIES

During the past year, five subcommittees of the Joint Economic Committee submitted reports to the committee. These reports were transmitted to the Congress on January 5, 1956. The recommendations contained in these reports are summarized in this appendix.

Subcommittee on Economic Stabilization

The subcommittee's report, Automation and Technological Change (S. Rept. No. 1308, 84th Cong., 2d sess., pp. 13–14), recommends:

1. The best and by far the most important single recommendation which the subcommittee can give is that the private and public sectors of the Nation do everything possible to assure the maintenance of a good, healthy, dynamic, and prospering economy, so that those who lose out at one place as a consequence of progressive technology will have no difficulty in finding a demand for their services elsewhere in the economy.

2. At this stage of the investigation, no specific broad-gage economic legislation appears to be called for, and the very good reason for this is that we already have on our statute books the Employment Act of 1946. The subcommittee can only recommend that the spirit and objectives of that act continue to be given active instrumentation and support by the executive agencies, the Congress, and the people as a whole.

3. The subcommittee recommends and strongly urges that the Federal executive agencies, the appropriate committees of the Congress, the State and local governments, and all others involved take every seriously to heart the need for a specific and broad program to promote secondary and higher education, to the largest extent possible.

4. The subcommittee similarly recommends that the Federal executive agencies, the Congress, and especially the local areas themselves develop comprehensive and concrete programs to ease the problems and eliminate local pockets of chronic or short-run unemployment, whatever the cause or causes of distress may be.

5. While Government presents a special situation it too must be alert to secure the benefits of advancing technology and increasing productivity. At the same time, in the interests of making the Government a model employer, the subcommittee suggests that the executive departments and agencies and the respective committees of the Senate and House dealing with civil-service administration would do well to keep especial watch over the problems of personnel administration involved in the displacement of employees by machines and improved techniques.

6. In the interests of labor mobility and facilitating the shifts involved in automation, the subcommittee recommends that consideration be given by the executive departments and, if need be, by the Congress to measures which will make for greater effectiveness and increased usefulness of the United States Employment Service, especially in dealing with the problem of the middle-aged worker and the placement of those of higher skills and degree of specialization.

7. From its own experience with such data, this subcommittee joins in what is certain to be a primary interest of the Statistics Subcommittee of the Joint Economic Committee; namely, the improvement of economic statistics, especially those relating to productivity and occupational shifts, and an increased alertness on the part of the executive agencies to the responsibility of providing statistics for policymaking in business as well as in Government.

8. The subcommittee recommends that industry, and management for its part, must be prepared to accept the human costs of displacement and retraining

as charges against the savings from the introduction of automation. In saying this, the subcommittee is not unmindful of—and was, indeed, gratified by—the extent to which enlightened management is already aware of and accepting responsibility in this respect. Nevertheless, by careful planning and scheduling the adjustments of workers and the stoppage of employment can be minimized and due recognition should be given to the timing of investment and technological changes with an eye on the state of general business and the needs for increased employment.

9. Organized labor should continue to recognize that an improved level of living for all cannot be achieved by a blind defense of the status quo. The education of its members, of management, community leaders, and Government officials, such as has been provided by these hearings, is an important function of union responsibility.

10. Throughout these hearings many witnesses have presented thoughtful and thought-provoking recommendations upon which the subcommittee has not had an opportunity to formulate definitive conclusions. In addition to the above recommendations, we commend to industry, labor, Government agencies, and State legislatures alike the study of this record and these individual suggestions, in order that the benefits of automation may be maximized and its hardships minimized.

11. Finally, the subcommittee's investigation convinced it that the problems of automation are by no means negligible nor settled. This prompts the subcommittee to the view and the urgent recommendation that all interested parties should make this a subject of continuing or recurrent study. The Subcommittee on Economic Stabilization considers it to be its responsibility and intends to review regularly the progress of technological change and the statistical evidence of occupational shifts. This is being done for the purpose of keeping informed and of being in a position to recommend further legislation if it should be needed.

Subcommittee on Economics Statistics

The subcommittee's report, 1955 Report on Economic Statistics (S. Rept. No. 1309, 84th Cong., 2d sess., pp. 5–9), recommends:

1. The monthly Industry Survey of the Office of Business Economics, covering manufacturers' inventories, shipments, and orders should be strengthened, as for example, through introduction of a new sample design, adequate to reduce errors to reduce present overlapping between industries, to provide finer detail, and to secure market groupings as well as present industry groups.

2. The Census Bureau's monthly series on retail and Wholesale sales and inventories should be enlarged and improved, so as to obtain broad coverage and provide inventory data by market categories corresponding to those for manufacturers.

3. The Federal Reserve statistics on department stores should be expanded to include outstanding orders for major departments and seasonally adjusted data by major departments should be published.

4. A new monthly series on new orders, shipments, and unfilled orders for capital equipment should be developed to complement data secured in the monthly Industry Survey.

5. The basic data on current construction activity should be improved with immediate action concentrated on the areas revealed in our hearings of July 1954 and incorporated in the President's budget of January 1955. (These are largely the same areas noted in the consultant committee report. This is a minimum program and would still leave room for additional improvements to bring data in this area up to fully adequate standards of reliability.)

6. The sample coverage of the SEC-Commerce data on anticipated plant and equipment expenditures should be expanded to fill the more significant gaps, and to take care of the constant sample bias by sampling new firms at regular intervals.

7. The responsibility for developing programs in the field of savings statistics and their sponsorship should be lodged in one place within the Federal Government but the actual compilation should be continued on the present decentralized basis.

8. Savings data, as well as other important statistical series, should be improved through extension of the FTC–SEC quarterly Financial Reports, now limited to manufacturing, to cover trade and other types of corporations, and through institution of financial reports for a sample of unincorporated businesses.

9. Studies should be undertaken of (*a*) means for estimating the proportion of inventories and associated data that are defense related; (*b*) needs for, and costs

of, current statistics on inventories other than in manufacturing and trade; (c) means of meeting needs for measures of physical volume of inventories both in aggregate and in selected detail.

10. In the field of savings, effort should be directed at (a) segregating incomes, expenditures and savings for at least four main groups—nonfarm households, farmers, unincorporated business firms, and private nonprofit institutions—all now included in the aggregate figures for the so-called personal sector; (b) developing current data on the gross as well as net savings by type; and (c) developing a sources-and-uses-of-funds statement on a quarterly basis, at least for the corporate sector.

11. The National Science Foundation should investigate the possibilities of a program of research grants for studies recommended by the five task forces as particularly promising.

12. The need for promptly available facts on the related aspects of consumer behavior being great, the Budget Bureau should review the various federally sponsored programs in the field to see specifically how data on consumer stocks, expenditures, finances, and anticipations might be collected most efficiently and made more adequate for present uses.

13. The possibilities for developing new and earlier anticipatory statistics on business spending should be explored by the appropriate agencies.

14. We specifically recommend the following program to private groups, for their consideration and action:

(a) Increased support for and coordination of work on the measurement of business expectations, perhaps through a single body backed not only by those working in the field, such as Dun & Bradstreet and McGraw-Hill, but also by users groups from business, industry, financial institutions, labor unions, etc.

(b) Increased support for surveys of consumer expectations.

(c) Efforts to develop ways to more fully utilize and coordinate statistical work of trade associations, to provide data of general usefulness without undue burden to the associations and possibly at some saving to the public.

(d) Research projects by doctoral candidates and others, assisted where necessary by foundation grants, along lines suggested in these task force reports.

(e) Organization of a continuing private group interested in all aspects of the measurement and interpretation of business and consumer expectations to act as a clearinghouse for information and as sponsor of conferences of experts where methods can be appraised and research results reviewed.

15. Our recent hearings have revealed again that a principal use of economic data by private users as well as public agencies is in preparing quantitative economic projections as an aid in policymaking. Some of these projections are more in the nature of unconditional forecasts, while others are statements of the probable outlook on the basis of stated assumptions. The need for quantification of projections has been emphasized on many occasions. Only by such efforts can economists and policymakers adequately review previous economic analyses in a scientific way. Improved economic projections can contribute to economic stability, and a survey of economic projections and methods for making them should be of great value. As a first step, we recommend that during 1956 a survey be made by the subcommittee of procedures and methods used by Government agencies, for example, in projecting Government revenues and expenditures by the Treasury Department and the Bureau of the Budget, in preparing and disseminating outlook materials by the Department of Agriculture, in estimating the following year's construction activity by the Departments of Commerce and Labor, and in coordinating such work by the Council of Economic Advisers.

Hearings conducted this fall by four other subcommittees of the Joint Economic Committee have revealed areas of deficiencies in our statistics which the subcommittee will wish to consider further—with a view to incorporating additional recommendations for study or action in the committee's next annual report.

Subcommittee on Tax Policy

The subcommittee's report, Federal Tax Policy for Economic Growth and Stability (S. Rept. No. 1310, 84th Cong., 2d sess., pp. 2–11), recommends:

The needs of the American economy for increasing capacity to provide higher living standards for all the population must be reflected in all the economic policies of the Federal Government. To be of greatest effectiveness in this respect, Federal tax policy in the future should follow these policies:

1. Federal tax policy should be related to levels of Government expenditures by the need for full utilization of growing productive resources and stability in the general price level. This would tend to result in Federal surpluses and debt retirement during prosperous and boom periods and deficits during recessions and depressions.

It is generally agreed that the currently emerging Federal cash budget surplus is the result of the significant expansion of economic activity since the last quarter of 1954. As such, this surplus represents a check on the place of this economic advance. Were it not for this increase in tax receipts relative to expenditures, we should probably now be witnessing a more rapid increase in the general price level. Prices of industrial products have been rising in recent months; only the continuing decline in farm prices prevents an overall rise in the wholesale price index. So long, therefore, as the present expansionary movement continues with upward pressure on prices of nonagricultural commodities, using the developing cash budget surplus as the occasion for tax reduction would be to forego utilizing a force for maintaining a stable rate of economic growth. A tax rate reduction next year in the face of a booming economy might well be inflationary. Rather, tax policy aimed at stabilizing the Nation's economy would call for applying the surplus to reducing the bank-held Federal debt. Only in highly prosperous times such as the present are we likely to find it economically possible to reduce the level of the Federal debt. We should reduce the Federal debt during periods of boom to offset the deficits resulting during periods of recession and depression.

Of course, it must be recognized that the economic outlook may change rapidly in the coming months. It may become apparent that expansion of economic activity is slowing, and that a higher rate of increase in total demand is required to make full use of our growing productive capacity and to provide the impetus for further growth. In this event, we would be in a position to reduce taxes more advisedly than by taking the action prior to evidence of economic need. In any event, improvements in the revenue structure are always timely; the revenue effects of such revisions, of course, should be carefully weighed in the light of prevailing economic conditions.

If we succeed in moderating short-run fluctuations in economic activity, we can count on a steady growth over the next decade which will make possible within that decade substantial reductions in effective Federal tax rates—perhaps by as much as one-third. Indeed, barring increases in Government spending programs, general reductions of tax rates will probably be necessary to assist in providing a level of total demand adequate for full utilization of all our resources.

2. Federal tax policy should enhance the built-in stabilizing capacity of the Federal tax system by strengthening the individual and corporation income taxes. Enhancing the built-in flexibility of the revenue system requires strengthening the individual and corporate income taxes.

The stabilizing capacity of income taxes depends primarily on (*a*) the size of the tax base relative to the actual income of individual and corporate taxpayers, (*b*) the responsiveness of the items of income which comprise the tax bases to changes in levels of economic activity, and (*c*) the degree of effective progression in the rate structure applied to the tax base. If we are to produce more built-in flexibility, proposals for amendment of our income taxes should be weighed in the light of their impact on these factors. For the future, the cost of any proposed revision of the income taxes in terms of possible loss of responsiveness to changes in the level of economic activity should be carefully weighed.

Strengthening the countercyclical sensitivity of these taxes involves no necessary implications with respect to the level of rates. The basic area in which this must be sought, rather, is in increasing the responsiveness of the tax bases to changes in levels of economic activity. In general, this may be accomplished by directing tax policy toward broadening the bases of the income taxes relative to the economic concepts of personal and corporate income. We call particular attention to those income items which are highly responsive to changes in levels of economic activity and which now escape ordinary income-tax treatment. Similarly, we call attention to deductions which do not contribute to accurate measurement of net income but which serve to offset fluctuations in income. At the very least, proposals which would result in further constriction of the tax base should be avoided whenever possible.

Adjustments of the tax-rate schedules to increase the responsiveness of the income taxes should also be sought. An increase in the spread between the bottom and top combined rates would contribute at least modestly to greater sensitivity of the corporate income tax.

A substantial improvement in the built-in flexibility of the individual income tax might be afforded by providing additional marginal rate graduation at the

bottom of the taxable income scale. Built-in flexibility would also be greatly enhanced by narrowing the taxable income brackets applicable to joint returns of married persons.

3. Federal tax policy should encourage the balanced growth of the economy and most efficient use of our economic resources by maintaining a careful balance between those elements of the tax system which rest most heavily on consumption and on investment and by seeking greater neutrality among taxpayers.

Slackening in the rate of growth of the economy associated with lagging consumer demand and idle plant and equipment, for example, would suggest the need for a reduction in taxes bearing on consumption relative to other major elements of the revenue system. By the same token, should rising levels of consumption prove inadequate to induce the desired rate of growth in productive capacity, easing the relative burden of taxes falling primarily on capital accumulation would be called for,

Moreover, balanced economic growth as an objective of Federal tax policy requires that the burden of taxes fall as neutrally as possible among all taxpayers.

Since it is commonly assumed that the operation of the price system in free markets will result in the best direction of our resources, tax provisions which interfere with such allocations must necessarily involve a cost in terms of a lower total real value for the product of the economy. This cost is reflected in restriction of the growth in productive capacity which might be attained with minimum sacrifice of current living standards.

It should be recognized that use of the Federal tax system as a means of stimulating the growth of any particular industry necessarily means willingness to deter the growth of others not equally favored, The more preferential the tax treatment afforded industry A to stimulate its growth, the less can be afforded industries B through Z. Possibly some, if not all, of the latter may even have to assume greater tax burdens than formerly and therefore may encounter more substantial barriers to their growth.

If preferential tax treatment is afforded any group in the economy, it necessarily implies a value judgment with respect to the type of economic activity most essential to the process of economic growth. We must be keenly sensitive to the weight of responsibility we assume if such decisions, which traditionally we are inclined to leave to the mechanism of the price system in the market, are made.

Adjustments in the revenue system to conform with growth considerations should take the form of general revisions rather than special provisions of narrow applicability. General revisions hold far greater promise for removing the deterrents to balanced economic growth than those which attempt to obtain neutrality in the impact of taxes by providing equally preferential treatment for one narrow group of taxpayers after another.

A prime objective of Federal tax policy should be to strive for neutrality in the application of our revenue laws. This neutrality in impact will be closely approximated by providing uniform tax treatment for all taxpayers with equal taxpaying ability, without reference to the particular circumstances out of which the taxpaying ability arises.

Elimination of growth-distorting features from the tax system would entail a thoroughgoing revision of the Internal Revenue Code. While the magnitude of such an undertaking is recognized as formidable, the rewards in terms of a more dynamic and better balanced economy warrant that a start be made. Although all of the principal components of the Federal revenue system contain such distortions, attention should be focused at the outset on the individual and corporate income taxes and on excises, since these account for all but a small fraction of total Federal revenue.

4. Federal tax policy should protect the competitive position of small and new businesses by providing adequate tax offsets to business risks and by gearing the structure of tax rates to any differential barriers to acquiring the financial resources required for their growth and development.

It is obvious at the outset that every effort should be made to write simpler tax laws. The more complex the tax code, the greater the burden on small business relative to the position of larger businesses.

The principal requirement is to avoid imposing tax disadvantages on the relatively high degree of risk and venturesomeness which characterize new enterprise in particular. The criterion should be regarded as generally applicable, suggesting the need for adequate provision for risks in the tax laws without preferentially offsetting such risks on the basis of type of business activity. This criterion also suggests the need for gearing the tax burdens of small and new businesses to any problems peculiar to such businesses in obtaining the financial resources required for their survival and growth.

This criterion calls for careful examination of tax proposals in the light of their real impact on the relative position of new and small businesses in the national economy. We should be sure that such businesses can participate equally with large, established firms in the benefits of proposed tax adjustments. Similarly, it should be recognized that, whatever its merits may be, a proposal which weakens the competitive position of small and new businesses may involve a significant cost in the effectiveness with which other public policies can achieve the free competition and atmosphere of economic challenge so essential in our economy.

The tax laws should be carefully examined and appraised in terms of their impact on the ability of small- and medium-size companies to resist inducement for absorption into larger business units.

A greater differential in effective rates applicable to small and large corporate taxpayers should be given careful consideration.

5. Finally, in light of the experience and benefits derived by this subcommittee through use of statistics in the course of its study, we commend to the committees of the Congress the desirability of obtaining additional data and other information bearing on the economic effects of existing tax provisions and other factors influencing balanced economic growth and stability.

Subcommittee on Low-Income Families

The subcommittee's report, A Program for the Low-Income Population at Substandard Levels of Living (S. Rept. No. 1311, 84th Cong., 2d sess., pp. 5–14), recommends:

1. The Congress should consider legislation to establish social-insurance programs covering the risks of temporary and permanent total disability.[1]

2. The appropriate congressional committees should study the desirability and feasibility of dovetailing such programs, if established, with the workmen's compensation acts of the various States; such study will necessarily entail a review and evaluation of the adequacy of the existing workmen's compensation programs.

3. The Federal Government, in cooperation with the States and private groups, should develop a comprehensive health program covering the following:

(*a*) Stimulation of means whereby families in rural areas may secure adequate health care;

(*b*) Provision of additional funds to provide for adequate recruiting and training of professional workers in the field of health care;

(*c*) Reduction in the cost to the individual of comprehensive health protection. This may necessitate contributing part or all of the cost of approved insurance programs for low-income families. The Congress may wish to consider whether it may be necessary, in order that voluntary health plans reach all of the population, to provide Federal financial aid to those in the low-income groups who are unable to purchase such protection; additional funds alone, however, would be useless to millions of our people in rural areas where there is a lack of doctors, nurses, and hospital beds;

(*d*) Extension of the school-lunch and milk programs, and the distribution of surplus commodities to needy families; and

(*e*) Expansion of Federal participation in public-assistance payments for medical care.

4. The following changes should be considered in the Federal grant-in-aid program of public assistance:

(*a*) Establishing a single, unified system of Federal grants for general public assistance in place of the current and separate programs which, according to evidence presented to the subcommittee, tend to restrict unnecessarily the types of need for which Federal funds are available;

(*b*) Basing Federal grants-in-aid for general public assistance on an equalization formula which takes into account the relative financial needs of the various States and State differences in per capita income;

(*c*) Lowering the maximum residence requirements which the States can impose on public-assistance applicants; and

(*d*) Making the Federal grants for child-welfare services available to all areas rather than limited as they now are to specially designated areas.

5. Provision for services designed to encourage individuals to attain self-support and self-care and to preserve and strengthen family life should be included in the federally aided public-assistance programs.

[1] Senator Ralph E. Flanders: This undertaking must be approached with great caution. Many insurance companies have had to discontinue disability benefits owing to the difficulty in defining "disability," whether temporary or permanent, in any given case.

6. The Federal Government should consider providing additional grants-in-aid to the States for the purpose of increasing the supply of trained professional workers needed to carry out the recommendations we present in this report.

7. Direct Federal grants-in-aid to the States should be provided initially for construction of school plant and equipment, based on an equalization formula which takes account of the relative economic need among the States.

8. The Federal Government, through grant-in-aid programs should assist the States to expand guidance services and vocational counseling provided within the school systems.

9. A national scholarship fund to aid those who could profit from additional education but who lack the necessary financial resources should be established.

10. Adult education programs should be expanded through Federal financial assistance extended to such institutions as the recognized and accredited colleges and universities; and, encouragement of vocational training and retraining programs should be sponsored by nongovernmental groups in our economy.

11. The credit programs now available to farmers should be expanded, with increased emphasis on loans extended to low-income farmers.

12. In combination with expansion of credit programs for low-income farmers, there should be a corresponding increase in the provision of technical assistance to the individual farm families receiving loans, such assistance to include development of an appropriate farm plan for the individual family and extending the technical guidance and leadership required to help the family carry out the plan proposed.

13. Consideration should be given to the development of farm extension services to meet the needs of low-income farm families in particular, and to greater utilization of trained workers to assist the family improve all aspects of its family life. As a first step toward a better life, it should be possible to help the family get improved subsistence from the land on which they are now living.

It is apparent that a threefold approach is required to meet other aspects of the problem of chronic labor underemployment in low-income farm areas: (1) Encouragement of off-farm employment by development of new industrial location within the area; (2) assistance of farm families willing to migrate to other areas and who possess definite job opportunities in the new location; (3) provision for greater opportunity for rural people to obtain training for nonfarm occupations.

14. The following program designed to meet these particular needs should be considered:

(*a*) By means of technical assistance and Federal loan guaranties, aid recognized and approved local groups engaged in attracting new industry into the area, and develop other ways of providing off-farm employment. These programs (which also are recommended for extension to depressed industrial areas) should provide maximum stimulus to private investment in areas now depressed but which possess advantages of location or resources that, in combination with such investment, make economic growth practical and feasible;

(*b*) Assist in the development of a program for financing approved cases of out-migration of individual families;

(*c*) Expand vocational counseling and job placement services in depressed agricultural areas; and

(*d*) Expand in rural areas the federally aided nonfarm vocational training programs.

15. There should be substantial expansion of existing programs of technical assistance to depressed industrial areas and to small producers within the area.

16. Credit aids should be extended, when such assistance is economically desirable, to existing local industries, and to approved local groups engaged in planning and constructing "ever-available" plants for the purpose of attracting diversified and expanding industries. Credit aid may possibly take the form of loan guaranties designed to promote maximum stimulus to private investment.

17. The Federal Government should share in planning and conducting appropriate economic surveys to determine the scope of current and potential local resources.

18. The small-business program, with particular emphasis on aid to depressed areas, and coordinated with a strengthened program of decentralization of defense contracts, should be expanded.

19. Vocational counseling, job information, and placement services of the Federal-State employment services should be extended so that workers in depressed areas will be aware of job opportunities in other communities. In addition, these agencies should expand their function of alerting employers outside

of depressed areas, as well as within, to the types of skills currently available in depressed areas.

20. Financial assistance should be provided to unemployed workers willing to undertake the approved retraining programs, and to those willing to migrate to areas of labor shortage.

21. There should be established in the executive branch of the Federal Government a central group charged with the responsibility of preparing a coordinated, comprehensive program aiding currently depressed industrial and rural areas and so designed as not to affect adversely other areas. Such a program must assist in maintaining the economic climate necessary to promote maximum economic growth of the economy as a whole.

22. Research along the following lines should be increased:

(*a*) A continuing program of study is needed to analyze regional and technological shifts so that trouble spots can be detected early enough to make for practical preventive action, such as encouragement of new enterprises in an expanding industry in areas where a major enterprise in a declining industry is expected to close down;

(b) An inventory of labor skills and economic assets should be compiled for each area now marked by concentrations of low incomes and chronic unemployment, to make it possible for public and private groups to match the available local resources with the needs of expanding industries so that new enterprises could be attracted to these depressed areas;

(*c*) For each distressed area, improved and more detailed reports on unemployment, labor force, percent unemployed, and number of new jobs to be created;

(*d*) Regular reporting of work stoppages by areas with some suitable measure of its relative importance in each area; and

(*e*) More information on differences in costs of living and in wage rates between areas and communities.

23. Intensive studies should be made to identify the population at substandard levels of living and the causes of their low economic status.

24. The Federal-State employment services should place greater emphasis on job-placement services for the older worker.

25. In all ways possible, government—Federal, State, and local—should encourage industry to employ older workers willing and able to work and to make more jobs available to this group by redesigning work to fit their capacity.

26. A report on the current status and size of the low-income population and the progress made in the alleviation of poverty and elimination of its causes should be prepared by the appropriate departments and agencies of the executive branch, such report to be submitted to the Joint Economic Committee during the 85th Congress, and periodically thereafter.

Subcommittee on Foreign Economic Policy

The subcommittee's report, Foreign Economic Policy (S. Rept. No. 1312, 84th Cong., 2d sess., pp. 30–32), recommends:

1. The President must continue to coordinate the diverse interests represented in the executive branch, and bear responsibility for foreign economic policy within that arm of Government. In the nature of our constitutional practices, there is not the same opportunity in the Congress for centralized coordination of all foreign economic policy, viewed in the broad sense. This puts a special responsibility upon individual members, the party leadership, and the standing committees of the Congress to consider the impact of their legislative proposals and their speeches on both home opinion and foreign behavior.

2. We should keep in mind in greater degree the psychological impact, as well as the purely economic, of domestic decisions which affect our foreign economic relations. We should keep in mind that our day-to-day actions often speak much louder than do pronouncements of overall good intentions, with consequent effect on the attitudes and behavior of friendly nations with whom we must cooperate in our own interest.

3. The United States should continue to champion multilateral trade on a most-favored-nation basis, insisting on reciprocal reductions in tariffs as well as the removal of other trade controls even without special concessions. Our reductions of trade barriers should be the occasion for hard bargaining with other countries to ease trade throughout the free world. The instrumentalities of the General Agreement on Tariffs and Trade, the Organization for Trade Cooperation, the International Monetary Fund, and the International Bank for Reconstruc-

tion and Development offer the best immediate opportunities for multilateral negotiation to make the greatest progress possible.

4. The United States should approve the agreement calling for its membership and participation in the Organization for Trade Cooperation.

5. The United States should continue to press for the earliest resumption of currency convertibility consistent with finding stable and maintainable rates. Our interest in such convertibility is to minimize trade discrimination and to spur international investment. It would be our hope that in particular the countries of Western Europe and the sterling area could meet the necessary conditions for de jure convertibility before too long. Although such convertibility should not be forced prematurely, neither should it be consigned to the indefinite future.

6. Tariff and trade policy of the United States should be dictated by the national interest, rather than in terms of specific industries or products. Where individual industries cannot meet foreign competition, other solutions than new trade barriers should be sought.

7. Further cuts in United States tariffs are in the national interest. The disruptive effect of such reductions can be minimized by making these cuts gradual, selective, reciprocal, and timed to fit the condition of business. Resort to quotas should be allowed only under extreme emergency conditions when other solutions are not available. Further simplification of the customs laws and related administrative matters should be carried out at the earliest possible date to streamline their operation and minimize arbitrary elements.

8. If aid is to be given to distressed areas or industries to meet the problems caused by new imports, such policies should be part of a broader program to meet similar problems of any source, not those of foreign trade alone. Such aid should not be aimed at blanket coverage, but to meet the specific hardships of people actually in distress. Aid should be viewed as temporary, and should be designed to contribute to the permanent correction of the distress so that aid can be terminated. It should not delay the solution of uneconomic arrangements which would continue to drag down the rest of the economy indefinitely.

9. No basic change in our controls on trade with the Communist countries is required at the present time. Trade in strategic goods would not be in the interest of the free world. But peaceful trade is not excluded from the realm of possibility any time that it is in the interest of the free world. Because East-West rade policy requires the cooperation of all countries of the free world, our policies must be coordinated with theirs. If we would limit trade important to our allies with the Communist countries, this policy carries a responsibility to provide alternate markets for their trade.

10. International investment and technical aid, both public and private, need further encouragement. Each case requires individual study and the solutions should be tailored to fit the circumstances. It should be kept in mind that this aid and investment is more than purely economic in character, and this will influence the choices made. Although broader considerations are involved, such aid, whether loans or grants, represents the positive and long-term equivalent of the negative and short-term restrictions on trade with the Communist bloc. This is a time when the Communists are using our own aid devices to further their ends, and we must be prepared to meet this challenge with a coordinated program which combines all the aspects of countering the problems created by the Communists. Only thus will the free world hold its margin of strength over the Sino-Soviet bloc.

11. Further study of domestic agricultural policy should take into account in greater degree the foreign economic policy aspects of these domestic measures.

12. Further study is required of the whole concept of defense essentiality if it is not to dominate over other necessary factors in trade policy. Not only should impartial criteria be discovered, but the whole concept of the mobilization base in the light of evolving military strategy should be reviewed.

13. New criteria should be developed to restrict application of the escape clause and peril points to industries where failure to apply these provisions would result in real hardship to individuals, whether workers or businessmen.

14. The problem of interpretation of antidumping penalties is a complicated one which deserves careful study rather than precipitate action; the need for change is recognized as its interpretation threatens to negate our foreign economic policy goals, but the remedies must be sought only with thorough investigation. At the very least, the President should be given authority to override Tariff Commission decisions when the national interest requires this.

15. We should give added encouragement to the preparation of international statistics, with attention both to the breadth of coverage and the quality of the information; data on national income and its distribution are particularly needed.

16. We need more study of what makes for economic growth both at home and abroad, if we are to choose policies which promote this development in the interests of attaining our national goals.

17, The work of this subcommittee should be continued for at least another year to explore more thoroughly some of the problems raised this year which were only partially answered. This study should include more specific analyses of individual situations than was possible within the general frame of reference of the current study.

APPENDIX B

CHECKLIST OF PUBLICATIONS OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT [1]

January 1947—March 1956

Declaring a National Policy on Employment, Production, and Purchasing Power (Report of the Joint Committee on the Economic Report), Senate Report No. 11: January 1947.

Food Prices, Production, and Consumption (Report of the Joint Committee on the Economic Report), Senate Document 113: April 1948.

Hearings on Current Price Developments and the Problem of Economic Stabilization (June 24, 25, 26, July 2, 8, 9, 10, 14, 15, 16, and 17, 1947): July 1947.

Interim Report on the President's Program to Deal with the Problems of Inflation (Report of the Joint Committee on the Economic Report), Senate Report 809: December 1947.

Hearings on Antiinflation Program as Recommended in the President's Message of November 17, 1947 (November 21, 24, 25, 26, 28, December 2, 3, 4, 5, and 10, 1947): December 1947.

Allocation and Inventory Control of Grain for the Production of Ethyl Alcohol (Report of the Joint Committee on the Economic Report), Senate Report 888: February 1948.

Hearings on Allocation of Grain for Production of Ethyl Alcohol (February 5 and 6, 1948): February 1948.

High Prices of Consumer Goods (Report of the Joint Committee on the Economic Report), Senate Report 1565: June 1948.

Hearings on Increases in Steel Prices (March 2, 1948).

Joint Economic Report (Report on the January 1948 Economic Report of the President), Senate Report 1358: May 1948.

Hearings on Credit Policies (April 13 and 16, May 12, 13, 27, 1948): July 1948.

Statistical Gaps, Current Gaps in Our Statistical Knowledge (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: July 1948.

Consumers' Price Index (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: December 1948.

Hearings on Profits (December 6, 7, 8, 9, 10, 15, 16, 17, 20, 21, 1948): December 1948.

Profits (Report of a Subcommittee of the Joint Committee on the Economic Report on Profits Hearings), committee print: February 1949.

Hearings, January 1949 Economic Report of the President (February 8, 9, 10, 11, 14, 15, 16, 17, 18, 1949): March 1949.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), Senate Report 88: March 1949.

Joint Economic Report (minority views of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), part II of Report 88: April 1949.

Employment and Unemployment (initial report of the Subcommittee on Unemployment), committee print: July 1949.

Economy of the South (the impact of Federal policies on the economy of the South), committee print: July 1949.

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[1] Publications marked with an asterisk (*) are on sale at the Superintendent of Documents, Government Printing Office, Washington 25, D. C. It is the general practice of the Joint Economic Committee to make available a limited supply of single copies of its publications for free distribution and to arrange for the sale of its studies through the Superintendent of Documents to take care of quantity orders.

Printed reports of hearings are available only on special request for each hearing, and are distributed to depository libraries throughout the country.

**Factors Affecting the Volume and Stability of Private Investment* (materials on the investment problem assembled by the staff of the Subcommittee on Investment) Senate Document 232 (sale price, 60 cents): September 1950; reprinted from committee print of October 1949.

Hearings on Federal Expenditure and Revenue Policies, September 23, 1949, containing National Planning Association reports prepared by Conference of University Economists: October 1949.

Selected Government Programs Which Aid the Unemployed and Low-Income Families (materials assembled by the staffs of the Subcommittee on Unemployment and the Subcommittee on Low-Income Families), committee print: November 1949.

**Low-Income Families and Economic Stability* (materials on the problem of low-income families assembled by the staff of the Subcommittee on Low-Income Families), Senate Document 231 (sale price, 35 cents): September 1950; reprinted from committee print of November 1949.

**Compendium of Materials on Monetary, Credit, and Fiscal Policies* (a collection of statements submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government officials, bankers, economists, and others), Senate Document 132 (sale price, $1): January 1950; reprinted from committee print of November 1949.

Hearings, Subcommittee on Investment (September 27, 28, 29, 1949): November 1949.

Basic Data Relating to Steel Prices (materials assembled by the staff of the Joint Committee on the Economic Report for use in steel hearings), committee print: January 1950.

**Highways and the Nation's Economy* (materials assembled by the staff of the Joint Committee on the Economic Report), Senate Document 145 (sale price, 20 cents): January 1950.

Hearings on Monetary, Credit, and Fiscal Policies (September 23, November 16, 17, 18, 22, 23, and December 1, 2, 3, 5, 7, 1949): January 1950.

**Monetary, Credit, and Fiscal Policies* (Report of the Subcommittee on Monetary, Credit, and Fiscal Policies), Senate Document 129 (sale price, 15 cents): January 1950.

**Employment and Unemployment* (Report of the Subcommittee on Unemployment), Senate Document 140 (sale price, 30 cents): February 1950.

Hearings, Subcommittee on Investment (December 6, 7, 8, 9, 12, 13, 14, 15, 17, 1949): February 1950.

Hearings, Subcommittee on Low Income (December 12, 13, 14, 15, 16, 17, 19, 20, 21, 22): March 1950.

Hearings, January 1950 Economic Report of the President (January 17, 18, 19, 20): February 1950.

Hearings, December 1949 Steel Price Increases (January 24, 25, 26, 27): March 1950.

**Low-Income Families and Economic Stability* (final report of the Subcommittee on Low-Income Families), Senate Document 146 (sale price, 15 cents): March 1950.

**Volume and Stability of Private Investment* (final report of the Subcommittee on Investment), Senate Document 149 (sale price, 15 cents): March 1950.

**December 1949 Steel Price Increases* (Report of the Joint Committee on the Economic Report), Senate Report 1373 (sale price 20 cents): March 1950.

**Handbook of Regional Statistics* (material assembled by the staff of the Joint Committee on the Economic Report), committee print (sale price $1): April 1950.

**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1950 Economic Report of the President), Senate Report 1843 (sale price 35 cents): June 1950.

**General Credit Control, Debt Management, and Economic Mobilization* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print (sale price 25 cents): January 1951.

**Underemployment of Rural Families* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print (sale price 20 cents): February 1951.

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**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1951 Report of the President), Senate Report 210 (sale price 30 cents): April 2, 1951.

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National Defense and the Economic Outlook (materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: August 1951.

**Inflation Still a Danger* (report of the Joint Committee on the Economic Report together with materials on national defense and the economic outlook included in committee print mentioned above), Senate Report 644 (sale price 15 cents): August 1951.

**Questions on General Credit Control and Debt Management* (prepared by staff of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report), committee print (sale price 15 cents): October 1951.

**Monetary Policy and the Management of the Public Debt.* Their Role in Achieving Price Stability and High-Level Employment (replies to questions and other material for the use of the Subcommittee on General Credit Control and Debt Management) (sale price: Part I, $1.75; Part II, $2.50): February 1952.

*Hearings, January 1952 Economic Report of the President (January 23, 24, 25, 26, 28, 30, 31, February 1) (sale price $1.25): February 1952.

**Constitutional Limitation on Federal Income, Estate, and Gift Tax Rates* (materials assembled for the Joint Committee on the Economic Report and the Select Committee on Small Business of the House of Representatives), committee print (sale price 15 cents): February 1952.

**Joint Economic Report* (Report of the Joint Committee on the January 1952 Report of the President together with National Defense and the Economic Outlook for the Fiscal Year 1953, materials prepared for the Joint Committee on the Economic Report by the Committee staff), Senate Report No. 1295 (sale price, 35 cents): March 1952.

**The Taxation of Corporate Surplus Accumulations*, The Application and Effect, Real and Feared, of Section 102 of the Internal Revenue Code dealing with Unreasonable Accumulation of Corporate Profits (study prepared for the Joint Committee on the Economic Report by Dr. J. K. Hall), committee print (sale price 55 cents): May 1952.

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Federal Tax Changes and Estimated Revenue Losses under Present Law (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print: November 1952.

**Sustaining Economic Forces Ahead* (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print (sale price 20 cents): December 1952.

**Pensions in the United States* (A Study prepared for the Joint Committee on the Economic Report by the National Planning Association), committee print (sale price 30 cents): December 1952.

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*Hearings, January 1954 Economic Report of the President (February 1, 2, 3, 4, 5, 8, 9, 10, 11, 15, 16, 17, 18): March 1954.

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*Hearings, Subcommittee on Economic Statistics of the Joint Committee on the Economic Report (July 12 and 13, 1954) (sale price $1.50): August 1954.

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Congressional Action on Major Economic Recommendations of the President, 1954 (Materials prepared by the Joint Committee on the Economic Report by the Committee Staff), committee print: September 1954.

**Potential Economic Growth of the United States During the Next Decade* (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print (sale price 15 cents): October 1954.

*Hearings, Subcommittee on Economic Stabilization (December 6 and 7, 1954) (sale price $1.25): December 1954.

**Trends in Economic Growth, A Comparison of the Western Powers and the Soviet Bloc* (Materials prepared for the Joint Committee on the Economic Report by the Legislative Reference Service of the Library of Congress), committee print (sale price $1): January 1955.

*Hearings, January 1955 Economic Report of the President (January 24, 26, 27, 28, 31, February 1, 2, 3, 8, 9, 10, and 16, 1955) (sale price $3.50): February 1955.

**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the 1955 Economic Report of the President), Senate Report No. 60, (sale price 30 cents): March 1955.

**Historical and Descriptive Supplement to Economic Indicators* (sale price 40 cents): November 1955.

Employment Act of 1946, as Amended, and Related Laws, and Rules of the Joint Committee on the Economic Report (prepared by staff of the Joint Committee on the Economic Report), committee print: December 1955.

*Hearings, Subcommittee on Economic Stabilization, Automation and Technological Change (October 14, 15, 17, 18, 24, 25, 26, 27, and 28, 1955) (sale price $2.00): November 1955.

**Automation and Technological Change* (Report of the Subcommittee on Economic Stabilization) committee print, November 1955 (sale price 10 cents): became Senate Report No. 1308, January 1956.

*Hearings, Subcommittee on Economic Statistics, *Reports of Federal Reserve Consultant Committees on Economic Statistics*, (July 19 and 26, October 4 and 5, 1955) (sale price $2.25): November 1955.

*Hearings, Subcommittee on Economic Statistics, Employment and Unemployment Statistics, (November 7 and 8, 1955) (sale price 45 cents): November 1955.

**1955 Report on Economic Statistics* (Report of the Subcommittee on Economic Statistics) committee print, November 1955 (sale price 15 cents): became Senate Report No. 1309, January 1956.

**Federal Tax Policy for Economic Growth and Stability* (Papers submitted by panelists appearing before the Subcommittee on Tax Policy), committee print (sale price $2.50): November 1955.

*Hearings, Subcommittee on Tax Policy, *Federal Tax Policy for Economic Growth and Stability* (December 5, 6, 7, 8, 9, 12, 13, 14, 15, and 16, 1955) (sale price $2.00): January 1956.

**Federal Tax Policy for Economic Growth and Stability* (Report of the Subcommittee on Tax Policy) committee print, December 1955 (sale price 10 cents): became Senate Report No. 1310, January 1956.

**The Federal Revenue System: Facts and Problems* (Materials assembled for the Subcommittee on Tax Policy by the Committee Staff), committee print (sale price 55 cents): January 1956.

**Characteristics of the Low-Income Population and Related Programs* (Materials prepared by the staff of the Subcommittee on Low-Income Families), committee print (sale price 60 cents): October 1955.

*Hearings, Subcommittee on Low-Income Families (November 18, 19, 21, 22, and 23, 1955) (sale price $2.00): December 1955.

*A *Program for the Low-Income Population at Substandard Levels of Living* (Report of the Subcommittee on Low-Income Families), committee print, December 1955 (sale price 10 cents); became Senate Report No. 1311, January 1956.

*Hearings, Subcommittee on Foreign Economic Policy, (November 9, 10, 14, 15, 16, and 17, 1955) (sale price $1.75): December 1955.

**Foreign Economic Policy* (Report of the Subcommittee on Foreign Economic Policy), committee print, December 1955 (sale price 15 cents); became Senate Report No. 1312, January 1956.

*Hearings, January 1956 Economic Report of the President (January 31, February 1, 2, 3, 6, 7, 8, 9, 14, 15, 17, and 28, 1956); March 1956.

*_Joint Economic Report_ (Report of the Joint Committee on the Economic Report on the 1956 Economic Report of the President); March 1956.

*_Economic Indicators_ (a monthly publication of the Congress under Public Law 120, 81st Cong., 1st sess.) (sale price 20 cents a copy, $2.00 a year): Issued monthly.

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Calendar No. 1629

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1607

EXEMPTION OF CERTAIN FOREIGN TRAVEL FROM TAX ON TRANSPORTATION OF PERSONS

MARCH 1, 1956.—Ordered to be printed

Mr. SMATHERS, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 5265]

The Committee on Finance, to whom was referred the bill (H. R. 5265) to exempt certain additional foreign travel from the tax on transportation of persons, having considered the same, report favorably thereon with an amendment and recommend that the bill, as amended, do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert:

That subsections (a) and (b) of section 4261 of the Internal Revenue Code of 1954 (relating to the tax on transportation of persons) are hereby amended to read as follows:

"(a) AMOUNTS PAID WITHIN THE UNITED STATES.—There is hereby imposed upon the amount paid within the United States for taxable transportation of persons (as defined in section 4262) by rail, motor vehicle, water, or air a tax equal to 10 percent of the amount so paid.

"(b) AMOUNTS PAID OUTSIDE THE UNITED STATES.—There is hereby imposed upon the amount paid without the United States for taxable transportation of persons (as defined in section 4262) by rail, motor vehicle, water, or air, but only if such transportation begins and ends in the United States, a tax equal to 10 percent of the amount so paid."

SEC. 2. Section 4262 of the Internal Revenue Code of 1954 (relating to exemptions from the tax on transportation of persons) is hereby amended by striking out subsection (a) and by redesignating subsections (b), (c), (d), (e), and (f) as subsections (a), (b), (c), (d), and (e), respectively. Such section, as so amended, is hereby renumbered as section 4263.

SEC. 3. Part I of subchapter C of chapter 33 of the Internal Revenue Code of 1954 is hereby amended by inserting after section 4261 the following new section:

"SEC. 4262. DEFINITION OF TAXABLE TRANSPORTATION OF PERSONS.

For purposes of this part—

"(1) GENERAL RULE.—The term 'taxable transportation of persons' means transportation that begins in the United States or at any point in Canda or Mexico not more than 225 miles from the continental United States and ends in the United States or at any point in Canada or Mexico not more than 225 miles from the continental United States.

"(2) TRANSPORTATION OUTSIDE THE NORTHERN PORTION OF THE WESTERN HEMISPHERE.—The term 'taxable transportation of persons' does not include transportation any part of which is outside the northern portion of the Western Hemisphere (the area lying west of the 30th meridian west of Greenwich, east of the international dateline, and north of the Equator, not including any country of South America)."

SEC. 4. (a) Part I of subchapter C of chapter 33 of the Internal Revenue Code of 1954 is hereby amended by adding at the end thereof a new section as follows:

"SEC. 4264. SPECIAL RULES.

"(a) PAYMENTS MADE OUTSIDE THE UNITED STATES FOR PREPAID ORDERS.—If the payment upon which tax is imposed by section 4261 (b) is made for a prepaid order, exchange order, or similar order, the person furnishing the initial transportation pursuant to such order shall collect the amount of the tax.

"(b) TAX DEDUCTED UPON REFUNDS.—Every person who refunds any amount with respect to a ticket or order which was purchased without payment of the tax imposed by section 4261, shall deduct from the amount refundable, to the extent available, any tax due under such section as a result of the use of a portion of the transportation purchased in connection with such ticket or order, and shall report to the Secretary or his delegate the amount of any such tax remaining uncollected.

"(c) PAYMENT OF TAX.—Where any tax imposed by section 4261 is not paid at the time payment for transportation is made, then, under regulations prescribed by the Secretary or his delegate—

"(1) such tax shall be paid by the person paying for the transportation or by the person using the transportation;

"(2) such tax shall be paid within such time as the Secretary or his delegate shall prescribe by regulations after whichever of the following first occurs:

"(A) the rights to the transportation expire; or

"(B) the time when the transportation becomes taxable transportation; and

"(3) payment of such tax shall be made to the person to whom the payment for transportation was made or to the Secretary or his delegate.

This subsection shall not apply in the case of any tax collected in the manner provided in subsection (a) or subsection (b) (to the extent any tax due is collected)."

"(d) APPLICATION OF TAX.—The tax imposed by section 4261 (a) shall apply to any amount paid within the United States for transportation of persons unless the taxpayer establishes, pursuant to regulations prescribed by the Secretary or his delegate, at the time of payment for the transportation, that the transportation is not taxable transportation of persons (as defined in section 4262).

"(e) ROUND TRIPS.—For purposes of this part, a round trip shall be considered to consist of transportation from the point of departure to the destination and separate transportation from such destination to the point of departure."

(b) Section 4261(d) of the Internal Revenue Code of 1954 (relating to payment of tax imposed on transportation of persons) is hereby amended by adding at the end thereof the following: "except as provided in section 4264."

(c) The first sentence of section 4291 of the Internal Revenue Code of 1954 (relating to cases where persons receiving payment must collect tax) is hereby amended to read as follows: "Every person receiving any payment for facilities or services on which a tax is imposed upon the payor thereof under this chapter shall collect the amount of the tax from the person making such payment, except as provided in section 4264 (a)."

SEC. 5. Subchapter B of chapter 68 of the Internal Revenue Code of 1954 (relating to assessable penalties) is hereby amended by adding at the end thereof a new section as follows:

"SEC. 6676. FAILURE TO PAY TAX ON TRANSPORTATION OF PERSONS.

"In addition to any criminal penalty provided by law, if any person liable for payment of tax imposed by section 4261 (relating to tax on transportation of persons) fails to pay such tax within the period prescribed, unless it is shown that failure to pay is due to reasonable cause, such person shall be liable to a penalty in an amount equal to whichever of the following is greater:

"(1) Two times the amount of tax due; or

"(2) $10."

SEC. 6. (a) The table of sections of part I of subchapter C of chapter 33 of the Internal Revenue Code of 1954 is hereby amended by striking out

"Sec. 4262. Exemptions."

and inserting in lieu thereof

"Sec. 4262. Definition of taxable transportation of persons.
"Sec. 4263. Exemptions.
"Sec. 4264. Special rules."

(b) The table of sections of subchapter B of chapter 68 of the Internal Revenue Code of 1954 is hereby amended by adding at the end thereof:

"Sec. 6076. Failure to pay tax on transportation of persons."

SEC. 7. The amendments made by this Act shall apply to amounts paid on or after the first day of the first month which begins more than 60 days after the date of the enactment of this Act for transportation commencing on or after such first day.

PURPOSE OF BILL

The purpose of this bill is, in general, to exempt from the 10-percent excise tax on amounts paid for transportation of persons travel to or from a point which is outside the United States or that part of Canada or Mexico that is within 225 miles of the United States.

GENERAL STATEMENT

At the present time the 1954 code provides that the following types of transportation are subject to tax where the ticket is purchased in the United States:

(1) transportation beginning and ending within the United States;

(2) transportation beginning and ending within the northern portion of the Western Hemisphere; and

(3) with respect to transportation beginning or ending outside the northern portion of the Western Hemisphere, so much of the transportation as constitutes transportation between one port or station in the United States, Canada (except Newfoundland), or Mexico, and another port or station within such area. However, in the case of transportation by water on a ship that makes an intermediate stop at a port within the United States on a voyage that begins or ends outside the northern portion of the Western Hemisphere, the part of the transportation between ports within the United States will not be taxable if the ship could not both discharge and take on passengers at the intermediate port in the United States.

In the case of tickets purchased outside of the United States, the 1954 code provides that transportation beginning and ending within the United States is subject to tax.

Your committee believes that it is undesirable to select trips to Central America, the Caribbean area, Mexico, and Canada for discriminatory treatment. Your committee believes that such treatment is contrary to the interests of the United States and in opposition to the good-neighbor policy this country has so long followed.

The bill, as passed by the House of Representatives, was intended to remove this discrimination. Under the House bill, transportation to a point outside the United States would not be taxed from the last port or station in the United States. For example, a person purchasing a ticket in New York to fly to Mexico City via Dallas, Tex., would

have paid no tax on the part of the transportation from Dallas to Mexico City. However, this way of removing the discrimination in present law created other problems. It was pointed out that the House bill would have penalized the carrier that makes additional stops in the United States as compared with one that goes nonstop. For example, transportation purchased in the United States on a plane flying nonstop from New York to Mexico City would have been completely tax free, while a passenger going to Mexico City by train or bus would have been taxed on all the transportation up to the last stop in the United States. Also, it would have been very difficult to compute the tax due under the formula in the House bill in the case of payments for transportation that would be partially taxable and partially nontaxable.

Your committee agrees on the desirability of removing the discrimination in present law against travel to countries in the Caribbean and Central America, and has amended the House bill to accomplish this purpose without introducing other forms of discrimination among carriers. Under the amendments made by your committee, transportation to or from any point outside the United States or that part of Canada or Mexico which is more than 225 miles from the continental United States will be completely exempt from the transportation tax on persons. The question of whether the transportation is taxable will be determined by reference to the points of departure and destination rather than to the route or manner of operation of the carrier. Thus, transportation from New York to Habana will be completely exempt if the person goes directly to Habana or if he goes via Miami. Similarly, a person who goes from Chicago to London by way of New York and Boston will be exempt on the entire trip. However, in order to purchase his ticket from Chicago to Boston tax free, he would be required to establish at the time he purchased his ticket from Chicago to Boston that it was for use in conjunction with the ticket from Boston to London.

There is also a discrimination in present law against United States steamships as compared with foreign ships. For example, transportation purchased in the United States on a United States ship from San Francisco to Tokyo via Honolulu will be taxable on the portion of the transportation from San Francisco to Honolulu. However, transportation on a foreign ship on the same route would be nontaxable since the foreign carrier would not have the right to both discharge and take on passengers in Honolulu. This discrimination against American carriers is removed under your committee's bill.

Under your committee's bill, payments made in the United States for transportation to or from points in Canada or Mexico that are within 225 miles of the United States will continue to be taxed. By continuing the tax on transportation to these nearby parts of Canada and Mexico, the administration of the law is simplified and opportunities for avoidance or evasion are removed. If all transportation to Canada and Mexico were exempt from tax, a person traveling to Los Angeles, Detroit, Buffalo, or other cities near the border might attempt to evade the tax by purchasing transportation to nearby points in Canada or Mexico.

In addition to granting relief to transportation beginning or ending outside the United States, the House bill would have granted partial exemption in the case of certain trips beginning and ending in the

United States. Under the House bill, the portion of a trip outside the United States would not be subject to tax if the route passed through a point more than 200 miles outside the United States, although the trip began and ended in the United States. One principal effect of this provision would have been to exempt most of the amount paid for a trip from San Francisco to Honolulu or from Fairbanks, Alaska, to Minneapolis. However, it would also exempt the portion outside the United States on a trip, for example, from Boston to Seattle via Montreal, Edmonton, and Vancouver, although the trip would have been fully taxable if the person had gone via Chicago. Thus, this provision would seem to discriminate between trips from one point in the United States to other points in the United States. Under the amendments made by your committee, all trips from one point in the United States to another point in the United States, including Alaska and Hawaii, that are presently subject to tax will continue to be taxed regardless of whether part of the trip is outside the United States.

In addition to these substantive rules, special provisions are made that will allow the Internal Revenue Service to adequately enforce payment of the tax. If the person improperly fails to pay the tax through any of the normal procedures or through payment directly to the Internal Revenue Service, then he may be subject to a civil penalty as well as to the criminal penalty in present law. These measures should curb evasion of the tax on tickets purchased outside the United States for travel between two points within the United States as well as preventing avoidance or evasion of the tax imposed on tickets purchased within the United States.

Your committee was informed that the revenue loss under the bill, as passed by the House, would be $20 million. The revenue loss under the bill as reported by your committee would also be $20 million.

Explanation of the Bill

SECTION 1

Section 1 of the bill, as amended by your committee, amends section 4261 (a) of the Internal Revenue Code of 1954 to impose the tax upon the amount paid within the United States for taxable transportation of persons (as defined in sec. 3 of the bill) by rail, motor vehicle, water, or air. The rate of tax (10 percent) is not changed.

This section also makes conforming changes in section 4261 (b) to impose the tax upon the amount paid outside the United States for taxable transportation of persons but (as under present law) only if such transportation begins and ends in the United States. Under your committee's bill, those payments made outside the United States that are now subject to tax will remain subject to tax.

SECTION 2

Section 2 of the bill, as amended by your committee, makes clerical changes in section 4262 (relating to exemptions from the tax on transportation of persons). Subsection (a) of section 4262 (relating to certain foreign travel) is deleted and subsections (b), (c), (d), (e), and (f)

are redesignated as subsections (a), (b), (c), (d), and (e), respectively, and such section is renumbered as section 4263. No substantive changes are made in the provisions that will be included in section 4263.

SECTION 3

Section 3 of the bill, as amended by your committee, adds the definition of taxable transportation of persons as section 4262 of the code. The term "taxable transportation of persons" is defined in section 4262 to mean transportation which begins in the United States (including the States, the District of Columbia, and the Territories of Alaska and Hawaii) or at any point in Canada or Mexico not more than 225 statute miles from the continental United States (including the States and the District of Columbia) and ends in such area. Thus, the tax imposed on payments made within the United States will apply to transportation which (1) begins in the United States and ends in the United States, (2) begins in the United States and ends at a point in Canada or Mexico which is not more than 225 miles from the continental United States, (3) begins at a point in Canada or Mexico not more than 225 miles from the continental United States and ends within the United States, and (4) begins at a point in Canada or Mexico not more than 225 miles from the continental United States and ends at another point in Canada or Mexico not more than 225 miles from the continental United States.

Whether any point in Canada or Mexico is not more than 225 miles from the continental United States is to be determined by measuring the distance from such point to the nearest point on the boundary of the continental United States.

In most cases it will be evident whether or not a destination is within or without 225 miles from the United States. In any instance in which it is not apparent whether a port or station is within or without 225 miles of the United States the exact distance may be computed mathematically by such methods as the Andoyer-Lambert formula. It is contemplated that the Secretary or his delegate will make this computation for major cities and will publish the determinations. Any determination made by the Secretary or his delegate will be presumed to be correct.

The application of the rules in this bill may be illustrated as follows:

A. In each of the following examples the transportation is "taxable transportation of persons" and the amount paid within the United States for such transportation is subject to the tax:

1. New York to Seattle.
2. New York to Vancouver, British Columbia.
3. Chicago to Monterrey, Mexico
4. Montreal, Canada, to Toronto, Canada
5. Seattle to Fairbanks, Alaska, via Whitehorse, Yukon Territory, Canada
6. San Francisco to Honolulu, T. H.
7. Miami to Los Angeles via Panama
8. Vancouver, British Columbia, to Honolulu, T. H.

If in examples 1, 5, 6, and 7, above payment for the transportation had been made outside the United States, such payment would nevertheless have been subject to tax since in each case the transportation begins and ends in the United States.

B. In each of the following examples the amount paid for the transportation is not subject to the tax since the transportation is not "taxable transportation of persons":

1. New York to Habana, Cuba, via Miami
2. Detroit to Manila, Philippines, via Honolulu, T. H.
3. Minneapolis to Edmonton, Canada
4. New York to Trinidad, British West Indies
5. Chicago to Puerto Rico

Paragraph (2) of section 4262 is explained in connection with section 4264 (e).

SECTION 4

Section 4 of the bill, as amended by your committee, adds a new section 4264 to the code providing special rules relating to the application and payment of the tax. Section 4264 (a) continues without substantive change a provision now contained in section 4291 of present law.

Section 4264 (b) provides a special rule for collection of the tax where an unused ticket or order (or portion thereof) purchased for nontaxable transportation is presented for refund and, as a result of the use of a portion of the transportation purchased in connection with such ticket or order, liability for payment of the tax had been incurred. In such cases the person making the refund is required to deduct from the amount refundable, to the extent available, the amount of the tax due. If the value of the unused ticket or order (or portion thereof) is less than the amount of the tax due, the person redeeming such unused ticket or order (or portion thereof) is required to make a report to the Secretary or his delegate as to the remainder of the tax due. For example, a carrier receives for redemption a ticket for transportation from Miami to Habana which the purchaser bought for use in conjunction with a ticket for transportation from New York to Miami, and the person applying for the refund does not show that the tax on the New York-Miami ticket has been paid or that the New York-Miami ticket has been redeemed.

The carrier, before making the refund for the unused ticket, is required to deduct from the amount refundable the tax applicable to the amount paid by the purchaser for the taxable transportation from New York to Miami and to report the tax so collected in the manner subscribed by regulations. In the event that the value of the Miami to Habana ticket is less than the amount of the tax due on the amount paid for the transportation from New York to Miami, the carrier should not make any refund to the purchaser but should apply against the outstanding tax the entire amount refundable and should notify the Secretary or his delegate of the passenger's name and address and the amount of tax remaining uncollected.

Section 4264 (c) provides special rules for payment of the tax where the payment for the transportation is (1) subject to tax at the time such payment is made but no tax is paid at that time, or (2) not subject to tax at the time such payment is made but because of some subsequent event becomes taxable. In such cases the person paying for, or the person using, the transportation must pay the tax to the person from whom the transportation was purchased, or to the Secretary or his delegate. Such payment must be made within the time

prescribed by regulations after whichever of the following first occurs: (*a*) The rights to the transportation expire, or (*b*) the time when the transportation becomes taxable transportation.

This subsection is not intended in any way to relieve the person receiving a payment for taxable transportation of persons from his duty under section 4291 of collecting the tax at the time such payment is received by him.

The provisions of section 4262 (c) do not apply in any case where the tax is collected in the manner provided in subsection (a) or subsection (b) of section 4262.

The following examples illustrate the application of section 4264 (c):

Example 1.—A purchases in Canada a ticket for his transportation from Detroit to San Francisco, but fails to pay the applicable tax at the time he makes the payment for such ticket. Since under section 4261 (b) the transportation was taxable at the time purchased by A, he must, within the time specified by the regulations after the date of such purchase, pay the applicable tax to either the person from whom he purchased the ticket or to the Secretary or his delegate.

Example 2.—B purchases in New York a round-trip ticket for transportation between New York and Habana, Cuba, with a stopover in Miami, Fla. After arriving in Miami B decides not to continue his trip to Habana but to return to New York. B is liable for the tax with respect to the amount paid for his transportation from New York to Miami and return. B's transportation became taxable transportation at the time he began his return trip to New York and, within the time specified by the regulations after such event occurred, B must pay the applicable tax to either the person from whom he purchased the ticket or to the Secretary or his delegate, unless within such time he has applied for a refund from which the tax can be deducted.

If in example 2, B had not returned to New York but had remained in Miami, he would not be required to pay any tax until the time specified by the regulations after the date on which his right to use the remaining portion of the ticket expired.

Under section 4264 (d) any amount paid within the United States for transportation of persons is presumed to be taxable unless the taxpayer establishes at the time of payment for the transportation, pursuant to regulations prescribed by the Secretary or his delegate, that the transportation is not taxable transportation of persons (as defined in sec. 4262). This may be established either by the purchase of a "through ticket" for transportation that does not constitute "taxable transportation" or by furnishing the carrier or agency receiving payment for the domestic portion of the transportation a ticket or order covering the international portion of the transportation, so that the tickets or orders may be appropriately inscribed in the manner required by the regulations. For example, in the case of a journey from Chicago to London, via New York, covered by two tickets (one for transportation from Chicago to New York and the other for transportation from New York to London) it must be established, as required by the regulations, at the time the Chicago-to-New-York-ticket is purchased, that such ticket is purchased for use in conjunction with a New York-to-London ticket (or order) which is purchased at the same time or which had been previously purchased.

Pursuant to regulations the agency or carrier which receives payment for the Chicago-New York ticket will be required to appropriately inscribe the tickets or orders to show clearly that the tickets or orders are purchased for use in conjunction with each other. If, in this example, the person who desired to purchase transportation between Chicago and New York for use in conjunction with a ticket from New York to London, did not furnish the agency or carrier receiving payment for the Chicago-New York portion his ticket from New York to London in order that the carrier or agency could comply with the regulations, then the person would be required to pay the tax on the Chicago-New York ticket. However, in such circumstances, the taxpayer could receive a refund of the tax if he files a claim for refund with the appropriate district director of internal revenue and establishes that the payment was not made for taxable transportation of persons as defined in section 4262.

Section 4264 (e) provides in effect that a round trip consists of two separate trips, i. e., one trip from the point of departure to the destination and a second trip from the destination to the point of departure. The term "round trip" is intended to include certain journeys in which the same routing is not followed on the return trip from the specified destination to the original point of departure as was taken on the going trip (sometimes referred to as "circle trips"). In the case of a cruise (i. e., transportation to no set destination but with one or more intermediate stops en route), the point farthest from the point of departure will be regarded as the destination for purposes of applying the term "round trip." However, the rules of "open-jaw" transportation, discussed below, apply if the cruise ends at a point other than the one at which it began.

"Open-jaw" transportation (transportation from the point of departure to a specified destination and transportation from that point to a point other than the original point of departure) will be considered as transportation from the original point of departure to the specified destination and separate transportation from that point to the final destination if the distance between the points of the "open-jaw" does not exceed the distance of the shorter segment traveled. For example, a trip from New York to New Orleans via Panama would be considered as transportation from New York to Panama and from Panama to New Orleans, so that both segments of the trip would be nontaxable. On the other hand, a trip from New York to Miami via Bermuda would be considered as transportation from New York to Miami and would be taxable.

However, transportation will be nontaxable if any portion of the transportation is outside the northern portion of the Western Hemisphere (the area lying west of the 30th meridian west of Greenwich, east of the international date line, and north of the Equator, but not including any country of South America), regardless of whether the trip would be considered as beginning and ending in the United States under the concepts discussed above. Under paragraph (2) of section 4262, it is not necessary to consider the point of departure or the ultimate destination on transportation any portion of which is outside the northern portion of the Western Hemisphere. Thus, transportation from Miami to Turbo, Colombia, to Los Angeles will be nontaxable.

SECTION 5

Section 5 of the bill, as amended by your committee, adds a new section 6676 to the code providing a civil penalty for failure to pay the tax imposed by section 4261. The new section provides that (in addition to any of the regular criminal penalties which may be applicable) if any person liable for payment of the tax fails to pay such tax as required by the law and regulations, a civil penalty may be imposed unless it can be shown that the failure to pay is due to reasonable cause. The penalty imposed is two times the amount of tax due but not less than $10. This penalty is to be assessed and collected as a tax.

SECTION 6

Section 6 of the bill, as amended by your committee, makes the conforming changes in the tables of sections.

SECTION 7

Section 7 of the bill, as amended by your committee, provides that the amendments made by this act shall apply to amounts paid on or after the first day of the first month which begins more than 60 days after the date of enactment of this act for transportation commencing on or after such first day. Under the House bill, this act would have applied to amounts paid on or after the first day of the first month which begins more than 10 days after the date of the enactment of this act for transportation commencing on or after such first day. The postponement in the effective date, under your committee's bill, is to allow the Internal Revenue Service sufficient time to prepare the necessary rules and the carriers an opportunity to acquaint their personnel who will be charged with the selling of tickets and collection of tax under the provisions of this act.

Changes in Existing Law

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics, existing law in which no change is proposed is shown in roman):

THE INTERNAL REVENUE CODE OF 1954

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CHAPTER 33—FACILITIES AND SERVICES

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Subchapter C—Transportation

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Part I—Persons

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Sec. 4261. Imposition of tax.
Sec. 4262. [Exemptions.] *Definition of taxable transportation of persons.*
Sec. 4263. Exemptions.
Sec. 4264. Special rules.

* * * * * * *

SEC. 4261. IMPOSITION OF TAX.

(a) AMOUNTS PAID WITHIN THE UNITED STATES.—There is hereby imposed upon the amount paid within the United States for [the] *taxable* transportation of persons (*as defined in section 4262*) by rail, motor vehicle, water, or air [within or without the United States] a tax equal to 10 percent of the amount so paid.

(b) AMOUNTS PAID OUTSIDE THE UNITED STATES.—There is hereby imposed upon the amount paid without the United States for [the] *taxable* transportation of persons (*as defined in section 4262*) by rail, motor vehicle, water, or air [which], *but only if such transportation* begins and ends in the United States, a tax equal to 10 percent of the amount so paid.

(c) SEATS, BERTHS, ETC.—There is hereby imposed upon the amount paid for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) or (b) a tax equivalent to 10 percent of the amount so paid.

(d) BY WHOM PAID.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax[.] *except as provided in section 4264.*

* * * * * * *

SEC. 4262. DEFINITION OF TAXABLE TRANSPORTATION OF PERSONS.

For purposes of this part—

(1) GENERAL RULE.—The term "taxable transportation of persons" means transportation that begins in the United States or at any point in Canada or Mexico not more than 225 miles from the continental United States and ends in the United States or at any point in Canada or Mexico not more than 225 miles from the continental United States.

(2) TRANSPORTATION OUTSIDE THE NORTHERN PORTION OF THE WESTERN HEMISPHERE.—The term "taxable transportation of persons" does not include transportation any part of which is outside northern portion of the Western Hemisphere (the area lying west of the 30th meridian west of Greenwich, east of the International Date Line, and north of the equator, not including any country of South America).

SEC. [4262.] *4263.* EXEMPTIONS.

[(a) CERTAIN FOREIGN TRAVEL.—The tax imposed by section 4261 shall not apply with respect to transportation any part of which is outside the northern portion of the Western Hemisphere, except with respect to any part of such transportation which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico. In the case of transportation by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere, no part of such transportation shall be considered for the purposes of the preceding sentence to be from any port within the United States, Canada, or Mexico to any other such port if the vessel in stopping at any such intermediate port is not authorized both to discharge and to take on passengers. A port or station within Newfoundland shall not, for the purposes of the preceding two sentences, be considered as a port or station within Canada. For the purposes of this section, the words "northern portion of the Western Hemisphere" mean the area lying west of the 30th meridian west of Greenwich, east of the International Date Line, and north of the equator, but not including any country of South America.]

[(b)] (*a*) COMMUTATION TRAVEL, ETC.—* * *

[(c)] (*b*) SMALL VEHICLES ON NONESTABLISHED LINES.—* * *

[(d)] (*c*) FISHING TRIPS.—* * *

[(e)] (*d*) CERTAIN ORGANIZATIONS.—* * *

[(f)] (*e*) MEMBERS OF THE ARMED FORCES.—* * *

* * * * * * *

SEC. 4264. SPECIAL RULES.

(a) PAYMENTS MADE OUTSIDE THE UNITED STATES FOR PREPAID ORDERS.—If the payment upon which tax is imposed by section 4261 (b) is made for a prepaid order, exchange order, or similar order, the person furnishing the initial transportation pursuant to such order shall collect the amount of the tax.

(b) TAX DEDUCTED UPON REFUNDS.—Every person who refunds any amount with respect to a ticket or order which was purchased without payment of the tax

imposed by section 4261, shall deduct from the amount refundable, to the extent available, any tax due under such section as a result of the use of a portion of the transportation purchased in connection with such ticket or order, and shall report to the Secretary or his delegate the amount of any such tax remaining uncollected.

(c) PAYMENT OF TAX.—Where any tax imposed by section 4261 is not paid at the time payment for transportation is made, then, under regulations prescribed by the Secretary or his delegate—

(1) such tax shall be paid by the person paying for the transportation or by the person using the transportation;

(2) such tax shall be paid within such time as the Secretary or his delegate shall prescribe by regulations after whichever of the following first occurs:

(A) the rights to the transportation expire; or

(B) the time when the transportation becomes taxable transportation; and

(3) payment of such tax shall be made to the person to whom the payment for transportation was made or to the Secretary or his delegate.

This subsection shall not apply in the case of any tax collected in the manner provided in subsection (a) or subsection (b) (to the extent any tax due is collected).

(d) APPLICATION OF TAX.—The tax imposed by section 4261 (a) shall apply to any amount paid within the United States for transportation of persons unless the taxpayer establishes, pursuant to regulations prescribed by the Secretary or his delegate, at the time of payment for the transportation, that the transportation is not taxable transportation of persons (as defined in section 4262).

(e) ROUND TRIPS.—For purposes of this part, a round trip shall be considered to consist of transportation from the point of departure to the destination and separate transportation from such destination to the point of departure.

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SUBCHAPTER E—SPECIAL PROVISIONS APPLICABLE TO SERVICES AND FACILITIES TAXES

* * * * * * *

SEC. 4291. CASES WHERE PERSONS RECEIVING PAYMENT MUST COLLECT TAX.

Every person receiving any payment for facilities or services on which a tax is imposed upon the payor thereof under this chapter, shall collect the amount of the tax from the person making such payment, except [that if the payment specified in section 4261 is made outside the United States for a prepaid order, exchange order, or similar order, the person furnishing the initial transportation pursuant to such order shall collect the amount of the tax.] *as provided in section 4264 (a).* For the purpose of this section every club or organization having life members shall collect the tax imposed on life memberships by section 4241.

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CHAPTER 68—ADDITIONS TO THE TAX, ADDITIONAL AMOUNTS, AND ASSESSABLE PENALTIES

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SUBCHAPTER B—ASSESSABLE PENALTIES

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Sec. 6676. Failure to pay tax on transportation of persons.

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SEC. 6676. FAILURE TO PAY TAX ON TRANSPORTATION OF PERSONS.

In addition to any criminal penalty provided by law, if any person liable for payment of tax imposed by section 4261 (relating to tax on transportation of persons) fails to pay such tax within the period prescribed, unless it is shown that failure to pay is due to reasonable cause, such person shall be liable to a penalty in an amount equal to whichever of the following is greater:

(1) Two times the amount of tax due; or

(2) $10.

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Calendar No. 1630

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1608

AMENDING THE UNITED STATES INFORMATION AND EXCHANGE ACT OF 1948, AS AMENDED

MARCH 1, 1956.—Ordered to be printed

Mr. FULBRIGHT, from the Committee on Foreign Relations, submitted the following

REPORT

[To accompany S. 2562]

The Committee on Foreign Relations, having had under consideration S. 2562, a bill to amend the United States Information and Exchange Act of 1948, as amended, reports S. 2562, with amendments, and recommends that it do pass.

PURPOSE OF THE BILL

The purpose of the present bill is to give effect to a recommendation of the President that section 201 of Public Law 402 (80th Cong., 2d sess.) which relates to the immigration status of individuals admitted under the educational exchange program be modified. S. 2562, as amended by the Committee on Foreign Relations, would require a person who is admitted to the United States as an exchange visitor to return to his country of origin or to a cooperating country and to reside therein for a total period of 2 years before he becomes eligible for an immigration visa and permanent reentry into the United States or for a nonimmigrant visa under section 101 (a) (15) (h) of the Immigration and Nationality Act.

BACKGROUND

Under the legislation authorizing the Secretary of State to provide for reciprocal interchanges of students, professors, and leading specialists between the United States and other countries (sec. 201, Public Law 402), every exchange visitor visa issued to a foreign national whether government or privately sponsored is accompanied by the requirement that at the expiration of the time for which such

person was admitted he will depart from the United States. The pertinent language of section 201 of the act is as follows:

> A person admitted under this section who fails to maintain the status under which he was admitted or who fails to depart from the United States at the expiration of the time for which he was admitted * * * shall * * * be taken into custody and promptly deported * * *

Exchange visitors are prevented by law from changing their status or from applying for suspension of deportation orders. At the present time, however, there is nothing to deter them from qualifying for an immigration visa after leaving the United States, and from being readmitted immediately from a neighboring country such as Canada or Mexico. Furthermore, increasing numbers of exchange visitors have taken steps to nullify the requirement that they return to their homeland by obtaining special relief bills authorizing them to remain in the country and transforming their status from that of nonimmigrant visitor to immigrants. The effect of this practice is to defeat the primary objective of the exchange program, namely, that those individuals who are brought to the United States will return either to their own or to another cooperating country to impart to their friends and the society in which they live impressions of the United States and its culture. Because of the scale on which this has been done, the administration considers it important that remedial action be taken and unqualifiedly supports legislation for that purpose.

COMMITTEE ACTION

S. 2562 was introduced in the Senate on July 18, 1955, by Senator Fulbright and referred to the Committee on Foreign Relations. On February 21, 1956, the committee considered the measure in executive session and after approving certain changes voted without objection to report it favorably to the Senate. Testimony concerning the need for strengthening this portion of the Information and Educational Exchange Act was given to the committee by Mr. Russell L. Riley, the Director of the Department of State's International Educational Exchange Service.

SUBSTANCE OF THE BILL

(*a*) *The 2-year absence clause.*—The pending measure would add a new paragraph "(b)" to section 201 of the act of January 27, 1948 (Public Law 402, 80th Cong., 62 Stat. 6), as amended by section 402 (f) of the Immigration and Nationality Act of June 27, 1952 (66 Stat. 163). This proposed paragraph would bar any person admitted as an exchange visitor or acquiring exchange visitor status after admission, from applying for an immigration visa or for adjustment of status to that of an alien lawfully admitted for permanent residence, until such person had resided and—

> been continuously physically present in a cooperating country or countries for an aggregate of at least 2 years following departure from the United States * * *

Through this provision, according to a spokesman for the Department of State, several advantages would inure to the United States. First of all, the amendment would make perfectly clear to all concerned —Federal agencies, American individuals or organizations interested in the permanent sojourn of exchange visitors, the American public

and, above all, the foreign nationals themselves—that the exchange program is not an immigration program and should not be used to circumvent the operation of the immigration laws. That intention will now be unmistakable at the time application for exchange visitor visa is made and approved. At the same time, the relaxation of certain administrative policies and procedures which hamper the exchange program will become possible. Among other things, supplemental trips of exchange visitors to neighboring countries will be facilitated by the elimination of the single-entry visa which has been regarded as an essential safeguard against abuse. Finally, the amendment will serve to forestall later more stringent action which may be required if the problem becomes more serious.

(*b*) *The waiver provision.*—A proviso in the bill authorizes the Attorney General, upon the request of an interested Government agency and the recommendation of the Secretary of State, to waive the 2-year period of foreign residence with respect to any alien whose admission to the United States is found by the Attorney General to be in the public interest. This provision was the subject of extended discussion in the committee. Stress was laid upon the importance of administering the restriction contemplated by the bill with humanity rather than with rigidity, to make allowance for situations in which the involuntary departure of an exchange visitor might have an adverse effect on the program.

It should be pointed out, however, that the purpose of the proviso is to permit the Attorney General to waive the 2-year absence requirement in special cases affecting the public interest, such as those relating to the defense and security of the United States. On the other hand the introduction of a private bill to relieve particular individuals in circumstances of extraordinary hardship is always possible. The policy of the Department of State in these cases was summed up as follows before the committee:

> * * * our general policy now is to oppose all special bills of this kind, with the exception of those cases involving the humanities where we know there is a very good case. In other words, our policy would not change in that respect at all but this would discourage some of these borderline, peripheral cases where it is quite evident * * * that all they came here for was to get married and to immigrate.

COMMITTEE CHANGES IN THE BILL

(*a*) In the course of its deliberations, the committee's attention was drawn to the possibility that certain language in the bill (which is quoted above as introduced), might be subject to misinterpretation. The language in question literally would have required continuous physical presence outside the United States for an aggregate of 2 years. This could be construed as meaning that if a former exchange visitor made a brief visit to the United States or to a noncooperating country, there would be a break in the 2-year period and he would be compelled to start his foreign residence all over again. Such a requirement appears altogether too severe and is unnecessary for the purposes of the bill. For this reason, the committee voted to delete the word "continuously" which precedes the words "physically present" from the bill.

(*b*) The committee was also concerned that S. 2562 as introduced might have been construed as applying not only to future exchange visitors but to those individuals who may have acquired exchange-

visitor status prior to the enactment of the measure. It was felt that to attach a requirement of 2 years' waiting period after an exchange visitor has left the United States would be to impose a condition with respect to those now in the country which was not applicable at the time they accepted exchange-visitor status and which might have induced them to refuse it.

Accordingly, to make clear that the measure was not intended to be retroactive, the committee voted to add an additional proviso, immediately after the words "public interest" ending the last sentence of the bill as introduced, in the following form:

And provided further, That the provisions of this paragraph shall apply only to those persons acquiring exchange-visitor status subsequent to the date of the enactment hereof.

It should be emphasized, however, that the proviso is not intended to preclude application of the 2-year-absence requirement to any exchange visitor who, subsequent to the enactment of the present bill, may apply for an extension of the period of time for which he was admitted.

(*c*) To correct a drafting omission in the bill, a technical change was approved by the committee under which the designation "(a)" would be inserted after the section number (201) of the Information and Educational Exchange Act of 1948.

CONCLUSIONS

It is the view of the committee that the legislation embodied in S. 2562 is long overdue. From the beginning of the exchange program Members of both Houses of Congress have been asked to introduce private bills to enable persons admitted under the exchange visitor program to remain here as immigrants. To the extent that such bills have been enacted, the benefits anticipated from the program are diminished, and the public funds appropriated to implement it are diluted.

Although applicants for exchange visitor visas formally agree to return to their own country as a condition of their admission as exchange visitors, and although the Department of State seeks to enforce their return as a matter of policy, there has been no specific expression of the intention of Congress clarifying the obligation of such persons to return to their own or to a cooperating country and to remain there for a period sufficient to permit realization of the program's basic objectives. During 1955, approximately 15,000 foreign nationals entered the United States as exchange visitors. It is in the interest of the United States that these people return home and contribute toward developing friendly relations between their country and ours. Unofficial estimates put the number of government-sponsored exchange visitors, as distinguished from privately sponsored exchange visitors, who fail to return home permanently at approximately 5 to 10 percent of the total; the percentage of privately sponsored exchange visitors may be considerably higher.

President Eisenhower, in vetoing a private bill to grant an exchange visitor permanent residence, stated:

All of the exchange programs are founded upon good faith. * * * On the one hand exchange aliens must return to the country from which they come. On the other hand, the United States must not permit either immediate reentry or other evasion of the return rule. Otherwise the countries from which our exchange

visitors come will realize little or no benefit from the training or experience received in the United States, and we shall fail to promote good will toward and better understanding of our way of life.

For these reasons, the Committee on Foreign Relations strongly urges prompt approval of the bill by the Senate.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

[PUBLIC LAW 402—80TH CONGRESS, AS AMENDED]

AN ACT To promote the better understanding of the United States among the peoples of the world and to strengthen cooperative international relations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

* * * * * * *

SEC. 201 (a) The Secretary is authorized to provide for interchanges on a reciprocal basis between the United States and other countries of students, trainees, teachers, guest instructors, professors, and leaders in fields of specialized knowledge or skill and shall wherever possible provide these interchanges by using the services of existing reputable agencies which are successfully engaged in such activity. The Secretary may provide for orientation courses and other appropriate services for such persons from other countries upon their arrival in the United States, and for such persons going to other countries from the United States. When any country fails or refuses to cooperate in such programs on a basis of reciprocity the Secretary shall terminate or limit such program, with respect to such country, to the extent he deems to be advisable in the interests of the United States. The persons specified in this section shall be admitted as nonimmigrants under section 101 (a) (15) of the Immigration and Nationality Act, for such time and under such conditions as may be prescribed by regulations promulgated by the Secretary of State and the Attorney General. A person admitted under this section who fails to maintain the status under which he was admitted or who fails to depart from the United States at the expiration of the time for which he was admitted, or who engages in activities of a political nature detrimental to the interests of the United States, or in activities not consistent with the security of the United States, shall, upon the warrant of the Attorney General, be taken into custody and promptly deported pursuant to sections 241, 242, and 243 of the Immigration and Nationality Act. Deportation proceedings under this section shall be summary and the findings of the Attorney General as to matters of fact shall be conclusive. Such persons shall not be eligible for suspension of deportation under section 244 of the Immigration and Nationality Act.

(b) No person admitted as an exchange visitor under this section or acquiring exchange visitor status after admission shall be eligible to apply for an immigrant visa, or for a nonimmigrant visa under section 101 (a) (15) (H) of the Immigration and Nationality Act, or for adjustment of status to that of an alien lawfully admitted for permanent residence, until it is established that such person has resided and been physically present in a cooperating country or countries for an aggregate of at least two years following departure from the United States: Provided, That upon request of an interested Government agency and the recommendation of the Secretary of State, the Attorney General may waive such two-year period of residence abroad in the case of any alien whose admission to the United States is found by the Attorney General to be in the public interest: And provided further, That the provisions of this paragraph shall apply only to those persons acquiring exchange visitor status subsequent to the date of the enactment hereof.

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